

104
**IMPACT ON U.S. EXPORTERS OF THE NEW GATT
PATENT ACCORD**

Y 4. IN 8/16: EX 7/13

Impact on U.S. Exporters of the New...

HEARING
BEFORE THE
SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

OCTOBER 25, 1995

Printed for the use of the Committee on International Relations



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IMPACT ON U.S. EXPORTERS OF THE NEW GATT PATENT ACCORD

WEDNESDAY, OCTOBER 25, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 1:07 p.m., in room 2255, Rayburn House Office Building, Washington, DC, Hon. Toby Roth (chairman of the Subcommittee) presiding.

Mr. ROTH. The hour of 1 p.m. having arrived, let me say that we are delighted to see everyone here this afternoon. Today the Subcommittee will conduct an oversight hearing on how the U.S.-Japan patent agreements and the patent provisions of GATT will affect U.S. companies in the global markets.

This hearing is being held at the request of Congressman Rohrabacher who is a sponsor of legislation to change the GATT provisions. Let me reiterate that this is an oversight hearing on the trade and competition aspects of the issue.

I compliment Congressman Rohrabacher for his initiative, although his legislation is not in the jurisdiction of this subcommittee. The question of patent terms has sparked sharply different views among corporate America, executives and the mentors. Those differences are reflected in Congress where Members have strongly held positions on both sides of the issue.

Commissioner Lehman, we appreciate your being here today. We also welcome Mr. Hill and Professor Chandler, who are here at the invitation of Mr. Rohrabacher. Before calling on Commissioner Lehman, let me recognize any Member of the Committee who may have an opening statement.

None?

OK. Mr. Lehman, please proceed as you see fit. We will put your entire testimony into the record and we will proceed with questions after your testimony.

STATEMENT OF THE HONORABLE BRUCE A. LEHMAN, ASSISTANT SECRETARY OF COMMERCE AND COMMISSIONER OF PATENT AND TRADEMARKS, PATENT AND TRADEMARK OFFICE, U.S. DEPARTMENT OF COMMERCE

Mr. LEHMAN. Thank you very much, Mr. Chairman. It is a pleasure for me to be here and I want to thank you for holding these hearings. I think that they ought to be able to shed a great deal of light on a very controversial issue. Also, I would just like to say

that it is a pleasure to be here with a fellow Wisconsinite. We both have common roots and, also, I happened to grow up right across from the Illinois State Line, in Beloit, Wisconsin. So I am intimately familiar with Mr. Manzullo's district as well. So we are all sort of from the same part of the world.

Mr. ROTH. Well, that means you have at least two good friends on the Committee.

[Laughter.]

Mr. LEHMAN. Actually, my mother lives in Florida and we certainly have a common interest in intellectual property with Congressman Rohrabacher, so we are one big happy family.

Mr. JOHNSTON. Mr. Chairman, everybody's mother is in Florida.

[Laughter.]

Mr. LEHMAN. I have a prepared statement that I believe has been submitted, Mr. Chairman, and I would be happy to submit that for the record and then try to summarize my statement so we can get to some of the questions that the Members might have.

Mr. ROTH. Please proceed.

Mr. LEHMAN. First of all, I would like to start out by putting this issue in context and to say that there are three principles, at least, that operate in my stewardship of the Patent and Trademark Office as it relates to both the internal administration of the office and our international relations. And those three basic principles or touchstones are as follows:

The first is that the best patent system is one that gets people in and out of the patent office and into the marketplace as quickly as possible. We do not want people spending many, many years in bureaucracy in the patent office. We want to get them in and out and to give them a valid and quality patent that they can take to venture capitalists to the marketplace, the stock market, to banks if necessary, so that they can build factories and put people to work and provide new products for the American people and become globally competitive.

The second basic principle is that we are functioning in a global marketplace today and, therefore, it is not good enough just to have effective patent protection in the United States, we have to have timely exclusivity for American innovators in every single market in which they wish to do business in the world. And that is very important because patents are granted on a national basis. You do not have patent protection unless an individual national patent office gives you a patent. And, frankly, that system has been very imperfect in the past. It is still imperfect and we are making improvements and the subject that we are going to talk about today is one of the areas where we are making some improvements. To reiterate, global marketplace is the second touchstone.

And the third is that even though any given patent term is inevitably somewhat arbitrary and during the period of American history we have had different patent terms, at one time the patent term was 14 years. Today, it is 20 years from filing. In my view, we should be able to provide every patent applicant with at least 17 years of exclusive patent protection. That is the third touchstone. So I would like to put all my comments in that context.

Let me tell you a little bit about how the U.S.-Japan accords on patents came into being because that really is the specific focus of today's hearing.

First of all, I mentioned with regard to my second touchstone, that effective international protection of intellectual property in the global marketplace is very important. Japan is the second largest market in the world. As in so many areas, we have not gotten a very good deal in Japan in the patent area. And let me just give you an illustration of what the historic problem there is and contrast it to the United States.

When you come into our patent office, within 3 years, you get a patent application either granted or denied and you walk out of the office and you will have exclusivity. You have the complete exclusive right to exclude anyone else from making, selling, or using your invention. Of course, that is a very powerful economic tool to take to the marketplace.

In Japan, it has not worked that way, historically. In Japan, you have very difficult times getting into the patent office. You have to file an application in what is a minority language, Japanese. And you have been stuck with your Japanese language application. You could not change it at a later time if you had found translation mistakes.

Second, it has taken you in the neighborhood of 7 or 8 years to get a patent once you applied for a patent. Further, 18 months after you file, your patent application in Japan has been published and Japanese industry has been able to take a look at it and they have a very long period in which they are able to work with your application and figure out what it means. If they want to slow you down from getting patent protection in Japan, they could use a system of what we call pre-grant opposition. They come in and litigate against you right in the patent office and delay the grant of your patent. And then at the very end of the process, once you went through this gauntlet, Japan has had a system of dependent patent compulsory licensing. And that is a system whereby if a Japanese competitor came up with an improvement on your underlying patent, they could get a separate patent on that improvement and then have an automatic right to license or use your underlying invention.

Well, clearly what that meant is that for the most part of the post-World War II period, the Japanese patent system has in effect put American innovators in a big quandary. Keep in mind, if you do not file any patent application, then you are completely open to piracy. So if you wanted to get anything out of that market, you had to file a patent application, but when you filed the patent application, then you were stuck with all of these procedures which, in effect, at the end of this gauntlet, all you might get is just a royalty.

Now what that means, let us just say that you are an automobile company and I know there is a big automobile plant in Congressman Manzullo's district, if you are Toyota operating out of Japan and you come up with a new technology and you file in our patent office, within 3 years, in fact, on an average of 19.1 months, you will get a patent and it will give you exclusivity over an innovation. For example, it may be an improvement to a carburetor.

By contrast, if Chrysler files in Japan, Chrysler will disclose that technology at 18 months and then Toyota, or any other company, will be able to avail themselves of that technology and use it and once the patent is granted, the most that Chrysler may get will be a right to a royalty. So what that means in practical terms—and this has market-opening implications, because in the automobile industry among big companies, there are always innovations and there are always going to be important things that are going to be developed that all companies will need to have access to.

Chrysler is in the unfortunate position, if they want to get the patented part from Toyota, Toyota will be able to say, "OK, send over your ship and pick up the part that you need at the dock in Yokohama." That is what Chrysler has to go through to get the part that is patented in the United States by Toyota. By contrast, in Japan, Toyota can simply say to Chrysler, "OK, we will pay a licensing fee and give you X-royalty for this technology, for the product that we, Toyota, will make and use here in Japan." I think that gives you an idea of how the patent system in the second largest market in the world has worked much to the detriment of the United States.

Now, one of my primary objectives was to try to change that situation and that is what this hearing is all about. I want to tell you that story today and I believe that we have changed that situation very substantially.

The agreement that we have achieved with Japan, and I will describe for you how that came about; is an agreement to which the Japanese Government already has implemented regulatory and legal changes which will do the following:

It will permit the filing of applications in the English language by American companies and the amendment of the application, if there are any mistakes in it, by reference to the English language filing.

Second, upon request, there will be a guarantee that every single patent will be either issued or the application will either be denied or granted within 36 months. This is not 7 or 8 years, it is 3 years.

Mr. ROTH. I am sorry. What was that time, again?

Mr. LEHMAN. Thirty-six months.

Mr. ROHRBACHER. That was a guarantee?

Mr. LEHMAN. That is correct. That is right in the agreement.

Third, the pre-grant opposition procedure is being abandoned. So a Japanese company will not be able to go into the Japanese Patent Office and slow you down anymore and, fourth, the dependent patent compulsory licensing is also being abandoned.

The ultimate result of these changes is that for the first time in history, American companies will have in Japan what they now have in the United States and that is timely exclusivity over their intellectual property innovations. And that will have, when those changes start to really take hold, a big market opening impact in Japan. If you think back to my story comparing Chrysler and Toyota, Chrysler is going to be able to then say, "OK. Send that boat over to Seattle and pick up the part that we, Chrysler, made in Belvedere." That will have an enormous effect, along with a lot of the other things that we are doing to open the Japanese market.

Now, that agreement came about as a result of a bilateral negotiation between the United States and Japan. And in that negotiation, there were certain things that the United States agreed to do to change our own law, things the Japanese side asked us to do. And those three things are as follows:

(1) That we would agree to have a patent term of 20 years from the filing of a patent application as opposed to 17 years from the issuance of the patent. (2) That we would have early publication of U.S. patents at 18 months. And (3) we would have an expanded system of re-examination that makes it easier once a patent has been issued and a third party thinks a mistake has been made, instead of the third party having to expose itself to complicated civil litigation, that third party can obtain an administrative determination in the patent office as to whether or not the patent was valid.

Now, how did those three concessions, if you will, on the part of the United States come about? Well, we are not in the business here in our patent office of giving away anything that is not in the interest of the United States.

When I became Commissioner of Patents and Trademarks, though, I had before me and, in fact, I was privileged to work on the transition for President Clinton for this office and one of the first documents which I read was this document right here. "The Advisory Commission on Patent Law Reform Report to the Secretary of Commerce." The chairperson of this advisory commission, established during the Bush Administration, was Douglas Comer, the Acting Assistant Secretary and Acting Commissioner of Patents and Trademarks under President Bush. The real author of this document was Harry Manbeck, the former Assistant Commissioner of Patents and Commissioner of Patents and Trademarks appointed by President Bush.

The Commission consisted of a number of leaders of American industry, including, by the way, the Patent Counsel of Wisconsin Alumni Research Association, the chairman of Pfizer, Inc., the vice presidents of Dresser Industries, 3M, IBM, the president of Proctor & Gamble, all leading American business entities and others.

President Bush's commission recommended virtually all of the things that I have just described to you and they recommended doing them without any concessions on the part of our trading partners whatsoever. They recommended that we unilaterally make all these changes.

They also recommended that we change our system in the United States to a system in which when there is a dispute over two parties as to who should get a patent on an invention, and the filing and the innovation occurred in approximately a similar timeframe, that the one who filed in the patent office first would automatically get the patent as opposed to the one who could prove by laboratory notes, etc., that they invented the subject matter first. That is, by and large, the international standard. We have been under some pressure from our trading partners to adopt that standard.

So, in addition to making these changes, the Bush Administration, at the urging of the private sector, by and large, recommended the adoption of a first-to-file patent system.

Upon taking office, I was aware that there was considerable concern about some of these changes. Overwhelmingly, that concern

was focused on the proposed change from our current first-to-invent patent system to a first-to-file patent system.

You can imagine why that might be. If you are a large corporation, it is not too difficult to operate in a first-to-file system because you have in-house and private lawyers promptly filing patent applications in the patent office. On the other hand, if you are an individual or small inventor, a certain period may elapse between your actually making the invention and your ability to pull the resources together to get to the patent office and file a patent application.

The first-to-file versus first-to-invent issue was of some particular concern to small and independent inventors and, to some degree, academic organizations.

The first thing that I did in August 1993 after I was confirmed is that I announced that we would have hearings in October on this very issue of so-called patent harmonization. We had published notice of this widely in the trade press and in our own official gazette. We had a number of witnesses who came to testify. Overwhelmingly, by the way, the majority of the witnesses favored all of the changes that had been proposed by the Bush commission.

But there was a very, very strong minority of independent, small, entrepreneurial inventors who felt very strongly about a shift in the first-to-file system. We heard very, very little—I mean just out of 30 witnesses or so, there were at best two or three who made any suggestion that they had any concern with 20-year term and early publication. Re-examination really was not on the table at that point in time.

When we reviewed those hearings, I came up with the following conclusion. The first conclusion was that, since we were talking about changes that were largely designed to bring about harmonization of the world's patent system so that Americans would have a better deal abroad, we should make absolutely no changes in American law, period.

Even though they were changes that for various domestic reasons our industry might prefer, until we had started to address some of the most serious international problems of global patent protection we should make no changes domestically. The most serious problems we had were those problems with Japan.

As part of the Administration's overall attempt to ratchet up our trade negotiations with Japan, I was put in charge of a working group on intellectual property rights in Japan and we began bilateral negotiations on those matters.

The first thing we did to provide leverage in the negotiations was to pull all these recommendations for domestic changes off the table. In the process, we also abandoned and that process has now been effectively stopped, a treaty negotiation that was underway in the World Intellectual Property Organization in Geneva which was designed to create an international treaty that we would have been obligated to do all of these things without getting much in return. All those things went off the table.

I also concluded that I would not for the foreseeable future in any way either propose legislation or negotiate a shift from the first-to-file system to the first-to-invent system. I did this not because the majority of industry was not in favor of it, but because I felt that this was something that was sufficiently significant to

a significant minority of applicants in our office; that is, independent inventors, that it should not be changed unless there was overwhelming persuasive evidence that it was advisable to do so. I did not feel that that evidence was there. So, having taken these things off the table, we got the attention of our trading partners and, particularly, Japan.

The result was that within a relatively short period of time, about a year, we had concluded two accords with Japan in which Japan had agreed to make the changes that I have described to you, opening for the first time in history, the second largest market in the world to true, timely exclusivity for American patent owners.

In a nutshell, Mr. Chairman, that is the genesis of this agreement. That is what it is all about. I should point out that the person who did the day-to-day negotiating on that was Michael Kirk and Michael Kirk at that time was a Deputy Assistant Secretary and Deputy Commissioner of Patent and Trademarks. He had been a career person at the Patent and Trademark Office and President Clinton elevated him into the PAS ranks to be my deputy. He is actually here in this room. If you have any questions of him, I am sure he would be happy to answer them either now or later on.

But I think that gives you an overview of why we did what we did and I would be happy to submit to any questions that you or any other members of the panel may have.

[The prepared statement of Mr. Lehman appears in the appendix.]

Mr. ROTH. I thank you very much, Mr. Lehman. I appreciate your testimony. Let me just say that you had 30 people appear at your hearing.

Mr. LEHMAN. That is right. It was about 30 witnesses, yes.

Mr. ROTH. And all 30 must have called me in the last couple of days.

[Laughter.]

Mr. ROTH. I do not know what has taken place.

You know, I had a friend in Green Bay who passed away by the name of Rudy Small. He was always telling me, "You have got to do something about patent law. You have got to look into this."

You know, I have never really focused on this issue, but it seems as though there is a lot of controversy here. When the GATT was up, I know that Mr. Rohrabacher talked to a lot of Congressmen about this and this is not something that has just come up. I was wondering, what has caused this controversy recently?

I had understood from your explanation that everybody was sort of in agreement. It had to be completed and this was the outcome. There is a lot of controversy out there. What seems to be the problem here? Can you enlighten me a little bit?

Mr. LEHMAN. Well, there are controversies and there are controversies. It depends on how you define what a controversy is. There is a list that I can give you for the record. I think when we do business in Washington, generally speaking, in a democracy, we have to first look at organized groups, people who represent large constituencies. Of the people that represent large constituencies there is not to my knowledge a single trade association or group which does not support what we have done. That starts with the National Association of Manufacturers and it includes such distin-

guished groups as the American Electronics Association, the Automobile Manufacturer's Association, the American Intellectual Property Law Association, the Chemical Manufacturers Association, the Computer and Communications Industries Association, the Electronics Industries Association, Semi-Conductor Industry Association, and I could go on, a list of America's leading companies.

There is a lot of fear in America today as we know and it is very, very easy sometimes, when people do not understand, particularly individuals, to get riled up about something when they do not fully understand the facts.

There are some individuals out there who have a lot of fears. I think we have proven that of the interest groups that use the patent office that they are a distinct minority, but I think that those fears are what can be addressed at these hearings today. Hopefully they can be put to rest.

Mr. ROTH. Well, this friend of mine, this Mr. Small was extremely diplomatic, a great salesperson, and he had a couple of patents. He was an individual. Maybe is it the individual versus the big companies? Is that it?

Mr. LEHMAN. I would not say so. There are a lot of individual inventors who support what we have done. I think that a lot of individual inventors want to have foreign markets opened to them. Many individual inventors want to even have the domestic reforms that are a part of this package even if they do not do business abroad. They want to have a 20-year term from filing because for about 80 percent of patent applicants that is going to mean a longer patent term than they presently have.

Keep in mind that the average pendency in the Office today is 19.1 months. So, by simple arithmetic, you can determine that from the time of filing, most patent applicants will have a longer patent term than they had under the old term. And furthermore, the Uruguay Round implementing legislation provides, for the first time, the ability to file a provisional application at a very, very low cost. The filing fee is \$75 and an applicant can get into the process a year earlier and will, in effect, have 21 years of patent protection.

We are committed to and are making great progress in actually reducing that pendency, and I will be happy to discuss that further so that we will get that time period reduced even further.

First, there are a lot of inventors, including individual inventors, who realize that they will get actually more exclusivity, more patent protection in the United States with this new system.

Second, there are a lot of people who very much want early publication of patent applications. We had a separate set of hearings out in Silicon Valley in Santa Clara County where more patents originate than any other county in the United States. The single message that we obtained from the hearing, especially from small software innovators, was that they do not want to be blindsided by the patent system. This may occur because patent applications are maintained in confidence and others may be doing work and making an investment of time and energy and money, only to later discover that someone else had dibs on a given invention. As a result, those testifying favored the early publication of patent applications. We can supply the testimony from that hearing for the record. I can, in fact, supply the whole transcript of that hearing and you

will see that, overwhelmingly, there was an interest in early publication. And, certainly, with regard to re-examination, I think most of you are familiar with the problems that we have with litigation in America today, that most Americans and especially small business people and individuals do not want to have to defend their rights in a million-dollar patent lawsuit. They would rather have an easier administrative procedure to test the validity of their rights. That is what these provisions provide.

Mr. ROTH. We have a vote on the floor in the Committee. We will call in order of arrival. I think Mr. Rohrabacher is first. Would you like to ask questions or shall we go and come back?

Mr. ROHRABACHER. Actually, why do we not vote and come back. And I do not believe I was the first here. Mr. Johnston was here, first.

Mr. ROTH. Well, Mr. Johnston, then let us go vote and then we will come back and ask questions.

[Recess.]

Mr. ROTH. Mr. Johnston and Mr. Manzullo were next on the list, but they are not back yet.

Mr. ROHRABACHER. I would be very happy to go ahead and then when my colleagues return—

Mr. ROTH. Why do we not do that? Go ahead. Oh, here is Mr. Johnston.

Mr. Johnston, you are up. Just like the World Series, you are batting clean-up.

Mr. JOHNSTON. Albert Bell.

Mr. LEHMAN. Well, he did get a few hits last night.

Mr. JOHNSTON. Excuse me, Mr. Commissioner. Let me just go through a few notes here; 19 months is the average?

Mr. LEHMAN. 19.1 months is the average pendency in our Office between the filing of an application and either the allowance of the patent or notice of allowance of the patent to the applicant or its rejection.

Mr. JOHNSTON. And 36 months is the out period? What percentage is greater than 36 months?

Mr. LEHMAN. Ninety-five percent of all U.S. patents are granted within 36 months at the present time. So there are some patent grants that have taken a little longer, but you have to keep in mind that that was under the old system. I think it is absolutely incumbent upon us and we will do everything humanly possible to guarantee that patents are issued within 36 months or rejected.

Mr. JOHNSTON. OK. 95 percent yes, 5 percent no.

Mr. LEHMAN. That is right.

Mr. JOHNSTON. What does the 5 percent equal in numbers?

Mr. LEHMAN. In total numbers, that would roughly be about 5,000, a little over 5,000 patents.

Mr. JOHNSTON. 5,000 do not make it through—

Mr. LEHMAN. No. Actually, it would be actually less than that because that is of the applications. That would be about 2 percent roughly.

Mr. JOHNSTON. OK.

Mr. LEHMAN. 2,000, rather.

Mr. JOHNSTON. Mr. Chairman, if I could ask you a question? I was reading Mr. Lehman's testimony earlier. He says that the per-

son that is really responsible for the hearings and things and he was from the Patent and Trademark Office is Michael K. Kirk. He earlier said he was in the room. Has he been invited to testify at all? Mr. Kirk?

Mr. ROTH. We did not invite him to testify, but we can ask him a few questions if he is willing to accept them.

Mr. JOHNSTON. Well, I think maybe esoterical questions down the road that somebody might like to ask him, but I do not know enough about the subject to intelligently ask him. Which leads me into the next question, Mr. Lehman.

I figured out I looked at patent and copyright 39 years ago in law school. Since that time I have intentionally avoided any connection with the subject matter. So this is a question that I have written down here. What are the relative advantages of the 20 years from filing versus the 17 years from issuance?

Mr. LEHMAN. I remember when I first got involved in this set of issues about 20 years ago, I asked the same question, Mr. Johnston, and that was because by and large, most all countries except the United States, have a system of patent term which is measured 20 years from the filing of the application. We have historically had for quite a few years a patent term of 17 years measured from the date of issuance of the patent.

And the answer that I got with one of the old-time members of the patent bar 20 years ago was, "Well, you know, there really is not much difference because under our system we give you 3 years to get through the patent office."

And in those days, in fact, the average patent pendency was just about 36 months. That is, the average patent application was processed through the office in about 3 years. Now, we have actually reduced that pendency considerably.

Any term is inherently a somewhat arbitrary figure. But it generally was thought that the U.S. system and the systems of our trading partners were pretty comparable because the practical marketplace period of exclusivity under our system and theirs ought to have been about 17 years.

Now, as I indicated to you, in Japan and some other countries, that was not the case. In Japan, in fact, because up until this agreement that we have just concluded, Americans who wanted to get a patent in Japan were in effect only getting about 12 or 13 years of patent protection not—

Mr. GEJDENSON. Would the gentleman yield? Now they have moved?

Mr. LEHMAN. Well, that was one of the essences of the agreement and I explained that in my testimony. Japan has now agreed to guarantee to any American applicant that they will receive either a rejection of their application or an allowance of their patent within 3 years of filing. That means that for now for the first time in the second largest market on this planet, Americans will have, in effect, what they were accustomed to having here. And that is 17 years of patent protection.

Mr. JOHNSTON. The 20 years from filing conforms with the rest of the world?

Mr. LEHMAN. That is correct.

Mr. JOHNSTON. No other country has—

Mr. LEHMAN. I think the Philippines has the same system that we do. Keep in mind that what we are trying to do was part of the overall GATT trip's implementation. We are trying to develop an intellectual property system whereby our citizens have rights in every single part of this globe that are comparable to what they have here and that means being able to get timely exclusivity. We are focused here on patents and we are focused primarily on Japan, but we have different problems in different countries and we have been engaged in many bilateral negotiations, but we have done a lot in the last several years to provide that timely exclusivity for Americans all over the world. That is really important because one of the greatest assets that we have in this country is our intellectual property. And if we cannot get paid for it when it is used overseas, we are throwing away one of our major economic assets.

Mr. JOHNSTON. Thank you, Mr. Chairman.

Mr. ROTH. OK. Thank you, Mr. Johnston.

Mr. Manzullo.

Mr. MANZULLO. I have no questions. I would yield my time to Mr. Rohrabacher in addition to his own time.

Mr. ROTH. Mr. Gejdenson, do you have any questions?

Mr. GEJDENSON. I would be happy to waive to Mr. Rohrabacher.

Mrs. MEYERS. No questions. I will wait until after Mr. Rohrabacher. If all the rest of them are going to wait, I had better wait, too.

Mr. ROTH. Mr. Rohrabacher.

Mr. ROHRABACHER. Well, thank you very much, Mr. Chairman, and I appreciate you holding this hearing and it has been a long time since I was able to actually get to a point where we could have this official exchange. And I appreciate the Chair's sense of responsibility that this issue get a full hearing and a full airing because the issue of technology in the United States, technology is our greatest asset and the technological development of our country and the creation of technology and technological ideas in our country serve as a well spring for our national prosperity and competitiveness. So this is a very vital issue.

And let me first admit that I have learned something. These hearings are important. I have not been operating under the assumption that the Japanese had offered a guarantee to either deny or to accept a patent application after 36 months until today. And I have been operating that misconception and I am very pleased that we have had this exchange because that enlightens me to that particular point. And I have studied this issue which shows you how complicated the issue is.

But still with that I would like to say that, Mr. Lehman, what you have stated was the traditional policy of Japan which was to grind Americans down and basically just totally disregard the rights of American inventors in Japan.

It seems to me even with this new knowledge that I have now that they have agreed to either accept or reject an application within 36 months, what we seem to have agreed to then is that we are opening every secret that Americans have to these very same people who are grinding us down and treated us like dogs before and now we are opening up every bit of information about technological advances in the United States to them after 18 months in exchange

for basically their right to continue to basically just after 36 months say no.

I mean, what makes you think if they have such a bad way of treating Americans prior to your agreement with them, that all of a sudden their attitude is not going to change and they are not just going to be rejecting our people when they come there for an application for a patent?

Mr. LEHMAN. Well, I am afraid I disagree with your assumptions there, Congressman Rohrabacher. First of all, keep in mind that right now any American patent applicant who wishes to get patent protection on an international basis must file patent applications in the patent offices of other countries, including Japan on the European Patent Office, for example, in Munich, if they want to get European-wide protection. In both of those places and in other countries as well, all patent applications are published at 18 months. So, it must be noted that anyone who attempts to get any kind of patent protection internationally is already exposing in the language of those foreign countries all of their technology at 18 months.

Mr. ROHRABACHER. Is that not the reason why many people do not go overseas but instead file their patents here and do not go overseas for patents?

Mr. LEHMAN. There are—

Mr. ROHRABACHER. So the change that you have made now and what you are proposing is and what was agreed to in your agreement with the Japanese is that now there is no safe haven for inventors.

Mr. LEHMAN. That is not true. I would be happy to explain it to you, Mr. Rohrabacher.

Mr. ROHRABACHER. It will be immediately after 18 months published to the entire world. Go right ahead and answer it.

Mr. LEHMAN. First, I wanted to make it clear—that is one of the reasons, by the way, that list of organizations and trade associations and companies that have to operate internationally are not particularly concerned about the 18-month issue because they are right now exposing their technology at 18 months and in those countries, including in Japan, they do not know whether they are going to have exclusivity.

But let us look at what we are going to do here and how our 18-months publication system is going to work because I think that really is what your question is addressed to.

Congressman Carlos Moorhead has introduced a bill that embodies these changes, H.R. 1733. And that legislation specifically provides that no invention, first of all, for an independent inventor—and we have the means of identifying them in our patent office—will have a patent published until 3 months after they have received a first office action from our office.

Now the first office action is when the patent examiner looks at the application and tells them, "Look, this is what I think you have got here and what you have not got." So they automatically will have a right then to say, "Well, if it looks to me like I am not going to get a patent on this, I will withdraw the application." Then they can rely on trade secrecy.

If they decide to go forward and publish their application, there may be a difference between what some of the provisions in the application were in the final patent. Also, under Congressman Moorhead's legislation, there is a right to receive compensation for any use of your patent during that period in time when it is exposed to the public.

Going beyond that, and this is where, Congressman Rohrabacher, the most frustrating thing about this to me is that I really do not have a single disagreement with any of your underlying premises. I think we should get all applications in and out of the patent office as quickly as possible. And no one should have anything less than 17 years of protection and everybody should be able to have an awfully good idea of whether or not they are going to get a patent before it is exposed to the public.

As a result, what we are doing internally in the patent office, even though our statistics are already very good, is that we have a massive re-engineering project underway and we are about to unveil a number of reforms which are going to make certain that you are going to know whether you are going to get a patent in less than 18 months.

Mr. ROHRABACHER. Excuse me, Mr. Lehman, if we could focus on the 18 months, before we get into how long it takes a patent to be issued, because I have a few other questions about your statistics which I consider to be relatively misleading, but honest nonetheless about the average patent pendency of 19 months.

But let us get back to the publication after 18 months. Every independent inventors organization in the country has taken the position against that publication. Now, I do not know about the big guys. You seem to think by your opening statement that law is made here by battling constituencies. Big constituencies are battling each other. I do not look at that way.

I look at it basically we are trying to decide what is right, what is wrong and basically when you stick up for people's rights, the system functions and when you try to deal with the interest groups, things seem to fall apart because everybody is just battling an amoral battle. But to the independent inventor, a publication forcing them to publish all of the details about what they have applied for for a patent is an invitation for the world to steal their invention.

Is it good will that you think is going to prevent people in Taiwan and Thailand and Mainland China and other places from not just going to the patent office and getting that published information and going to their factories and say, "Here it is."

Mr. LEHMAN. Well, Congressman Rohrabacher, there has always been in the patent system and it really goes right to Article 1, Section 8 of the Constitution, in which there is a bargain that is struck in our intellectual property system between the patentee and society. This issue goes right to the constitutional foundation of the system. And that is, that in return for getting a period of exclusivity in which you have an extremely powerful economic right to stop anybody from making or using or selling that invention, that you must disclose the technology to the public so other people can understand it and be able to work around it and so on and so forth. So the notion of disclosure has always been a part of our system

and patents are disclosed and, by the way, when they are, and keep in mind on an international basis, right now since most patents are actually granted at 19.1 months, at 19.1 months, any Japanese company, even if an American innovator has not filed in Japan, can come to the U.S. Patent Office and obtain that patent.

Mr. ROHRBACHER. And most patents are granted at 19 months. We will talk about that in one moment.

Most patents are granted in 19 months. That is good. I am glad you said that. Traditionally, however, this is a big change to say that before if you filed for a patent that your patent was not going to be published until it was granted to you versus now the position that you are taking as part of an agreement with Japan, that whether or not that patent is issued or not, 18 months later there is going to be a huge fax machine operating sending the faxes of the details of every new technological advance in this country that people have tried to and have applied for a patent even before those patents are issued. Is that not correct? This is a major change. This is not something that has been going on since our Constitution.

Mr. LEHMAN. Congressman Rohrabacher, the reason, which I confirmed in public hearings that I had in Silicon Valley and that the Bush Administration recommended making this change, was because there are a lot of people in this country who want to make this change quite apart from any international implications. I mentioned the software development in Silicon Valley.

Mr. ROHRBACHER. That is correct.

Mr. LEHMAN. Those people do not want to be hanging out there for 2 years to 3 years to 4 years to 5 years while some patent applicant may decide to dilly dally his way through the patent office and keep an innovation secret while they are out there maybe working in the same area and then this guy surfaces all of a sudden and they find out that all their energies and their efforts are for nought because they should have been working on something else.

Mr. ROHRBACHER. We know there is a problem with what you just described. But what I am asking you, and that is equivalent of saying I have a sliver in my foot. I am going to cut my foot off rather than pull out the sliver. Do you not think that by publishing, when our innovators, our creative genius of our people are, you know, when they then go to the U.S. Government for the traditional protection that they have under patent rights, the fact that at that moment, even before the patent is given to them and is issued to them that it is going to be published?

Mr. GEJDENSON. Would the gentleman yield?

Mr. ROHRBACHER. Let me finish the question.

Do you not think this is going to have deleterious side effects rather than just that one industry that you are talking about?

Mr. LEHMAN. The answer is no.

Mr. ROHRBACHER. No?

Mr. LEHMAN. I do not believe it will. I think it will have very positive effects and—

Mr. ROHRBACHER. The Japanese, foreigners and even our own people are not going to try to take advantage of that—

Mr. LEHMAN. Furthermore—

Mr. ROHRBACHER [continuing]. before the patent is issued?

Mr. LEHMAN. If you go back to the touchstones that I started out with in my testimony. One of the three principles was that we should get people in and out of the patent office as quickly as possible and, then, into the marketplace.

Mr. ROHRABACHER. Right.

Mr. LEHMAN. Second, that the economy was globalized and, third, that everybody should have 17 months of exclusivity at least.

Now, going back to that first principle, it is my objective and we are well on the way to doing that, to see that nobody—nobody who does not want their application published at 18 months without knowing that they have a patent in 18 months will be in that position. We can issue patents within 18 months.

Now, I cannot promise that if an individual patent applicant wants to drag things out on his part that it might take more than 18 months. But we can issue patents at 18 months. We are already issuing them 19.1 months after filing.

Mr. ROHRABACHER. Mr. Lehman, there is absolutely no problem with the inventors community with issuing information about a patent that has already been issued. That is not what is at hand here. If your organization, if the patent office issues a patent, in fact, that is what it means when you have been issued a patent. It is published.

Mr. LEHMAN. Well, why do we not focus, then, Mr. Rohrabacher, on trying to see that we get all the patents out in 18 months?

Mr. GEJDENSON. Would you yield?

Mr. ROHRABACHER. Mr. Gejdenson.

Mr. GEJDENSON. Let me ask just on this issue. You stated earlier that if an initial review seems to indicate there is a problem with a patent, the individual can withdraw his patent application.

Mr. LEHMAN. That is correct.

Mr. GEJDENSON. And preclude printing.

Mr. LEHMAN. That is correct.

Mr. GEJDENSON. In this 18-month period, I put in my application in Month 1. Then on Month 18 you publish, (1) if I get the patent in Month 17, I have no problem with you patent publishing. If in Month 17, I find that there is a problem with my patent application or my invention that I need to work on it longer, then I would be fearful that if it was published in the 18th month, I would end up having some big corporation rapidly develop my product and steal it from me. Can I in the 17th and a half month say, "I want to withdraw my patent application."

Mr. LEHMAN. That is correct.

Mr. GEJDENSON. Can I do it on the 17th month, 30th day?

Mr. LEHMAN. Well, actually, yes, you can. And if you are a small business, under the Moorhead bill, we guarantee that you will have a first office action at least 3 months before publication.

Mr. GEJDENSON. That is not law, yet.

Mr. LEHMAN. Well, but neither is 18 months' publication. It is part and parcel of the 18 months' publication.

Mr. GEJDENSON. It is part of the agreement.

So if the law does not pass and the agreement stays as it is and I bring in my brilliant invention and I have had several that I did not get around to bringing to you, much to my regret and I am sure society's regret as well, that if in the 17th month on the 29th, the

30th day, I am not confident from signals that I am getting from you folks that you are going to issue me the patent, I can take my material, go home and resubmit it later.

Mr. LEHMAN. That is correct. And, in fact, the average time period now without all the reforms that are underway, between when you apply and when you get your first office action is 19.1 months. That is, within that time period, the examiner comes back and tells you this is what you have got and what you do not is within 8.4 months. So you are still 10 months out under the existing system.

Mr. GEJDENSON. But my point is valid that I could ride this train until the next to the last day to almost the next to the last hour of the last day and say, "I am withdrawing my application. I want to protect my information until I am in a better position."

Mr. LEHMAN. That is correct.

Mr. ROHRABACHER. Reclaiming my time.

Mr. GEJDENSON. Thank you.

Mr. MANZULLO. Would you yield for a question?

Mr. ROHRABACHER. I would yield. Is it about this 18 months?

Mr. MANZULLO. Well, it is.

Mr. ROHRABACHER. Go right ahead.

Mr. MANZULLO. There is some confusion at least on this Member's part. What is the present law on disclosure?

Mr. LEHMAN. At the present time, a patent is disclosed in the United States when it issues. And, so, on the average, a patent is disclosed 19.1 months after filing.

Mr. MANZULLO. And what is the change that took place in the framework agreement with Japan?

Mr. LEHMAN. What we would agree to do and the recommendation of the Bush Advisory Commission, independent of the agreement with Japan, was that we have a system like most other countries where we disclose at 18 months.

Mr. MANZULLO. But that is a proposed change.

Mr. LEHMAN. That is correct. That is not in the law at the present time. Congressman Moorhead has introduced legislation which will do that. It does relate to the Japanese understanding because it is one of the things that we agreed to do as a part, our part of the bargain in opening the market in Japan. We agreed to do that because we thought it was in our best interest, quite independent of the Japanese concern.

Mr. MANZULLO. So it is a 3-year expedited period of time. The tradeoff with that is the 18-month window to move the whole process.

Mr. LEHMAN. That is correct.

Mr. MANZULLO. Would Japan have the same arrangement?

Mr. LEHMAN. Yes, that is correct. And most of the other countries do.

Mr. MANZULLO. Even if the inventor takes Mr. Gejdenson's advice and then withdraws his application?

Mr. LEHMAN. Then nobody sees his patent and he has the option to proceed, to keep it a trade secret.

Mr. MANZULLO. But then he can start all over again in the 18 months. He can refile and the 18 months would start again?

Mr. LEHMAN. Well, he could let his patent application be abandoned and refile it later. But if he discloses the technology in the meantime, then he would risk having it go into the public domain.

Mr. MANZULLO. Thank you.

Mr. LEHMAN. Keep in mind that there is a bargain in the patent system. Anyone is entitled to keep anything that they come up with a secret and have all the advantages of secrecy. But in order to get a patent which gives you the right to go into court and sue anybody else even, by the way, if the infringes independently came up with the patented idea is that you make a bargain that you will let everybody know what your innovation is. So if you are an inventor, you make a choice between using trade secrecy and using the patent system. But, of course, if your secret gets out, then you cannot get a patent.

Mr. ROHRBACHER. And, Mr. Lehman, traditionally in our country, in fact, through our nation's history, a patent has been basically the personal business and the property of the person who files for a patent. Up until that point until the patent is issued, and this is a dramatic change in patent law, and I will say that I think that it is conceivable that people of good will can disagree on whether or not people of ill will will take advantage of this publication before someone receives his patent in order to try to steal that information and that technology, but it is a far stretch, and anyone who does accept that, you know, I have some information about some condos for sale in beautiful Sarajevo because it would take a fool to believe that people who are stealing from us right now will refrain from stealing from our inventors when the inventor has not even been issued the patent yet.

But let us get back to another central point of this if I could, Mr. Chairman, about your continuing to say that most patents are granted within 19 months and then you just stated a few moments ago, the average patent which means it will be published after 19 months because that is when the patent is issued. That is not the case. And you have done this through the debate. And I would just like to put it out to you now.

Mr. LEHMAN. Why is that not the case, Mr. Rohrabacher?

Mr. ROHRBACHER. The average patent is not granted in 19 months. You stated very well in your opening statement and indicated, that is not the truth. The average patent is not granted in 19 months. The average patent action takes place in 19 months. That means denials of a patent are averaged in with patents that are granted.

Mr. LEHMAN. No, no, no, no. You are wrong.

Mr. ROHRBACHER. I am afraid that is what your opening statement said.

Mr. LEHMAN. Pendency means pendency from between application and allowance, notice of allowance of the patent and/or, in the alternative, rejection. So it covers both. That is the pendency period.

Mr. ROHRBACHER. Well, what I am trying to tell you is that we have looked at this very carefully, independent inventors organizations from around the country have been looking at this statistic although it is very difficult to calculate with the numbers that we are talking, that it is nowhere near—the average patent that is is-

sued has taken much longer than 19 months, if you calculate the rejection—

Mr. LEHMAN. Well, I would be happy to see your statistics on this, Mr. Rohrabacher, because I am in the business of keeping statistics about my office. And I do not think that that is accurate.

Mr. ROHRABACHER. OK. Well, let us then when this hearing is over come back to that point. But what is more important are those 2,000 or 3,000 patents that you talked about that are not included in this, that would basically take much longer than that? Not those 5 percent or 2 or 3 percent, whatever we are trying to say, take much longer than that. Most people who do not deal with the patent office do not realize that the huge chunks of patents coming through the patent office are inconsequential patents. They are patents on very small changes in technology, but they are not breakthrough technologies. They are not the inventions of the laser, or any number of major, the micro processor, you name it, polypropylene—plastic bottles, OK? The breakthrough technologies take much longer than 19 months. They take much longer than 3 or 4 years.

Mr. LEHMAN. No, I think you are wrong about that, Congressman Rohrabacher.

Mr. ROHRABACHER. All right.

Mr. LEHMAN. There are many, many breakthrough technologies that have gotten patent protection. In fact, one of the critics of our system, the inventor of magnetic resonance imaging machine, I believe obtained his patent in something like 19 months.

You also have to distinguish between the patent office of 15 years ago and the patent office of today. I can tell you that 15 years ago it might have taken you 4 or 5 years to get a patent, but that is not the patent office today and it is certainly not the patent office of the future. It is not what we are trying to do.

Keep in mind that we are looking at this thing from an overall point of view to try to develop a system that meets all of the needs of the American innovative community. And that means not only do we manage to negotiate international agreements under which they get timely exclusivity abroad, but that in the United States they have the shortest possible processing time.

Mr. ROHRABACHER. But have you not taken away the incentive for your office to actually put those patents out in a faster pace if indeed you say that once the clock starts at 20 years, that that time goes against the inventor and not against the system?

Mr. LEHMAN. I think just the opposite, Mr. Rohrabacher. I think what we are doing is we are putting ourselves under an obligation to make certain that the patent is issued or rejected within 36 months in all cases. And in fact, if you look at what we are doing in the office, we are in the process of making that a reality.

Mr. ROHRABACHER. But the clock is ticking and the inventor knows that for every day that goes on, that that is a day less that he is going to have patent protection. Does that not put him in, vis-a-vis the bureaucracy, at enormous disadvantage as compared to the system we have now which is basically we have given the benefit of the doubt to the inventor so that if the bureaucracy is not doing their job or if outside interests come in and have inter-

ferences, that that inventor is not going to lose that 17 years of protection?

Mr. GEJDENSON. Would the gentleman yield?

Mr. ROHRABACHER. Certainly.

Mr. GEJDENSON. I just had a point—the gentleman is very earnest in his desire here. I would agree with the gentleman if this was the world economy of the 1950's and the 1960's. But I think we have lost some things here in a host of categories because the benefit to our inventors and our economy is now global and that we can attain some benefits in Japan where I think we did do very badly for a number of reasons. We were worried about what the Japanese would do vis-a-vis the Russians, rather than what they were doing vis-a-vis to us economically, but that the gains we make as far as market access and market protection in Japan have to be weighed on that scale.

So I think at the end of the day—and the last thing I have to say is that we are watching. You know, things have changed in the patent office. When I got here 14 or 15 years ago, it took a lot longer and I think they took some heat. And I think the patent office is a different patent office.

Mr. ROHRABACHER. But I think the basic point I am making is, yes, things have changed, but we are changing the dynamics with this agreement and with the law that went through in the GATT implementation legislation that actually takes us in the opposite direction. It takes the incentives away from the bureaucracy and actually gives the bureaucracy a free hand in dealing with an independent inventor as compared to before where the bureaucracy knew that if it was stalling or if it did not do its job well, they would not be hurting the inventor.

Now, the inventory has to make concessions in order to get the bureaucracy to do its job.

Mr. LEHMAN. Mr. Rohrabacher, I can only operate on the basis of what people tell me and I had extensive public hearings on this. The cream of American high technology industry said to me, "This is what we want you to do," including the people who account for the vast majority of patent applications in our office. I can give you this list of companies like the IBM Corporation, the Chrysler Corporation, Proctor & Gamble, Microsoft, Novell, Oracle, Polaroid, Phillips, Union Carbide, Westinghouse, Xerox, General Electric, Eastman Kodak, DuPont, Deer & Company, Coca Cola.

Mr. ROHRABACHER. Can you tell us on your list how many of the inventor organizations on your lists rather than the large corporations that might be using technology invented by someone else? Also might be involved with the interlocking directorates with Japanese corporations, for example?

Mr. LEHMAN. Well, first of all, when you talk about independent inventor organizations, there are inventors clubs around the country and some of those people happen to favor your position, but I think you properly characterize, Mr. Rohrabacher, what the division is. They are a group that is hard to define, of individual inventors, part of inventors clubs around the country, and these are largely basement inventors and hobbyists on the one side and you have the cream of American high technology industry on the other side. I am not going to apologize for being responsible and taking

a position with regard to our government that has been endorsed by the previous Republican Administration and that is endorsed by the cream of American high technology industry to which most of our citizens will have to look for their jobs and our country will have to look to for its competitiveness as we go into the 21st century.

Mr. ROTH. Mr. Rohrabacher, we appreciate and acknowledge your dedication to this issue, but let me see if someone else has some questions.

Mr. ROHRABACHER. Sure.

Mr. ROTH. I will ask Mr. Gejdenson.

Mr. GEJDENSON. Thank you. Mr. Chairman, I first yield to Mr. Johnston for a comment.

Mr. JOHNSTON. Just a quick question and not to dwell too much, Commissioner, on this 18 months, let me go through a hypothetical.

The patent applicant is still in there after 18 months. His invention is now published. He has not gotten his certificate yet from your office.

Mr. LEHMAN. That is correct.

Mr. JOHNSTON. A Taiwanese takes that publication and starts manufacturing that product. He then gets your certificate, is he in any worse or better shape on a patent infringement then had he not published earlier?

What I am saying is, is a certificate any different than publication?

Mr. LEHMAN. Well, first of all, if he had not published earlier, if he decided to use trade secrecy, he would not be able to sue the Taiwanese company for infringement at all. Under the new system, he would be able to sue for infringement and get injunctive relief against the Taiwanese company and absolutely put them out of business. Furthermore, he would be able to get damages for that period of time in which the patent was exposed and the Taiwanese company used the patent. So he would have what I would call belt-and-suspenders protection.

This system is used in other parts of the world. I was recently in Munich talking with my colleagues—

Mr. JOHNSTON. Commissioner, I only have a brief moment. Let me then go to something else. Mr. Rohrabacher has a memo to all Members of the Committee. And in here he says, "Several issues are raised by these agreements. First, who in the Administration authorized these negotiations?" And I think you answered that, that its inception was in the Bush Administration. Is that correct?

Mr. LEHMAN. No. The provisions of law that Mr. Rohrabacher objects to went back to the Bush Administration which was going to propose these changes to U.S. law without any international quid quo pros.

Mr. JOHNSTON. OK.

Mr. LEHMAN. In the Clinton Administration we took all of these things off the table until we knew that we would be able to use them to get some concessions on the part of our trading partners and it was Secretary of State Christopher who specifically authorized the PTO to have this responsibility since he is responsible, overall, for international negotiations.

Mr. JOHNSTON. OK. His next question, "Also was Congress consulted?" Now, the Chairman says we are not the committee of jurisdiction. Has there been consultation with the Intellectual Property Subcommittee of the Judiciary Committee?

Mr. LEHMAN. The answer is, yes. In fact, there were hearings held on this. There were joint hearings between the House and the Senate prior to the 20-year term Uruguay Round legislation.

Mr. ROHRABACHER. Is this during the negotiations? Excuse me.

Mr. JOHNSTON. Yes.

Mr. ROHRABACHER. You actually held these hearings and consulted with a congressional committee during the negotiations?

Mr. LEHMAN. Well, first of all, we had public hearings ourselves. The first thing I did when I took office was to have public hearings about this issue and all the congressional committees were notified of the hearings. In fact, I cannot remember if you sent somebody or not. But some Members did send people to those public hearings.

Second, we have at every point other than the middle of the negotiations themselves when obviously you do not want to tell the Japanese what you are going to do. The moment we had made a deal, we made that public. And we so notified the congressional committees and made ourselves available to talk to them about it.

And, again, this is something you probably might want to ask Mr. Kirk about because he was more on the front lines on that than I was.

Mr. JOHNSTON. OK. Let me interrupt for the last time quickly. This is continuing with the memo from Mr. Rohrabacher. "Given that the United States has traditionally had the very strongest patent system in the world, harmonization would have a serious and potential deleterious impact on American patent rights. Each of the concessions agreed to by the PTO would decrease patent rights in the United States."

Now, at the time of the hearings in which you had witnesses, were there any members of the Inventors Association that appeared before you?

Mr. LEHMAN. Yes, there were.

Mr. JOHNSTON. And did they feel that this would have a deleterious effect?

Mr. LEHMAN. They focused almost exclusively on the first-to-invent and first-to-file controversy which I outlined to you. We listened to them and even though a majority of witnesses and a majority of users of the U.S. patent system wanted us to adopt the Bush Administration recommendations and go to a first-to-file system, we took that off the table. Of the over 30 witnesses that we had, there may have been one or two who raised this issue. And a number of the independent inventor witnesses did not, and I specifically asked them during the course of the hearings about 20-year term and 18-month publication. They specifically indicated they did not have any problem with it and I would be happy to supply the Committee with that transcript.

Mr. JOHNSTON. On your laundry list there, NAM and all them, is the U.S. Chamber on that list?

Mr. LEHMAN. I do not think it is.

Mr. JOHNSTON. OK.

Mr. LEHMAN. I do not think they have taken a position on it.

Mr. JOHNSTON. OK. Thank you.

Mr. ROTH. OK. Thank you very much: Chairwoman Meyers, do you have any questions?

Mrs. MEYERS. I have no questions.

Mr. ROTH. OK. Mr. Manzullo.

Mr. MANZULLO. No questions.

Mr. ROTH. Anyone else?

Mr. ROHRABACHER. I would have a few more questions, but it would indulge the chair. I know you want to get on with the hearing.

Mr. ROTH. I would like to get on because I want to be fair to Mr. Hill and Professor Chandler.

Mr. ROHRABACHER. Could I have just a few more minutes?

Mrs. MEYERS. I give my time to Mr. Rohrabacher.

Mr. ROTH. OK. I would not normally do it, but I know Mr. Rohrabacher has spent a lot of time on this and he is very concerned about it. I know Mr. Lehman is here to make sure we straighten out whatever issues there may be before us. So, why do you not go ahead?

Mr. ROHRABACHER. Thank you.

Mr. ROTH. Five minutes.

Mr. ROHRABACHER. Mr. Lehman, I guess we just disagree and I will continue to examine the figures that you have given to me about the length of time that it has taken breakthrough technologies that I consider to be a misleading average. You know, if you average in nothing, you know, inconsequential patents with breakthrough technologies that might take 5 or 10 years—in fact, I think we will have some inventors who will be testifying here after you finish as to how long it took them to get their patents. And if you have someone who has something that is going to change the system and it takes longer than 3 years, are not the rules that you are proposing, will that not affect them dramatically in terms of the amount of money that they can attract for investment and plus their payoff for basically investing their own time and efforts into creating this new technology?

Mr. LEHMAN. Well, Mr. Rohrabacher, I would like to work with you. If I understand your concerns, they are the following. One is you want to make certain that everybody has at least 17 years of patent protection.

Mr. ROHRABACHER. Correct.

Mr. LEHMAN. Two, you want to make certain that nobody has to give up the trade secrecy option and publish their patent before they know that they are going to get a patent. And those are your two concerns.

Mr. ROHRABACHER. Correct.

Mr. LEHMAN. I personally believe that exactly what we have now pretty much addresses those concerns. But I think that we can actually tie it down and guarantee that your concerns will be met and still keep all of the benefits of this agreement and still keep this reform legislation that American high-technology industry wants. And I would be happy to work with you on that.

I mean, as opposed to debating the statistics, to say that as an absolute matter that anybody who wants to know whether they are going to get a patent in 18 months will be able to have that infor-

mation. Let us focus on that. And then let us focus on making certain that there is no one—if someone wants to game the system, I cannot promise that we can get the patent out in 36 months. But I can tell you that I can promise that we can get that patent out in 36 months if it is our problem. We should be able to get that patent out in about 6 months.

Mr. ROHRABACHER. Mr. Lehman, my concern, especially this hearing, is focused on your agreement with the Japanese. Have the Japanese through your agreement basically obtained a source of information that they did not have before? Meaning they have this tremendous source of information of anyone who wants to patent new technology in the United States after 18 months whether that person has been granted a patent or not—and this is a dramatic change—now, the Japanese through their agreement with you have this tremendous insight into every new technological development coming down the road in the United States. And what they have given us in exchange for that is an agreement that after 36 months they will either give us a thumbs up or a thumbs down on patents that are applied for in Japan.

Mr. LEHMAN. I do not think that is quite the case, Mr. Rohrabacher. First of all, I do not totally know why the Japanese decided on these items as ones that they wanted. But let me say that I can give you my view of it. The reason is that the previous Republican Administration was prepared to hand over to Japan and every other country in the world every one of these changes and more; that is switching to a first-to-file situation and it was without them making any changes in their law. It was because we took every one of these things off the table that they were in a position where they had to make changes in their law.

And let me say this—

Mr. ROHRABACHER. Mr. Chairman, before I go into another point, Mr. Chairman, I have a letter from our former Trade Negotiator Yider contradicting what the witness has just stated. So that I submit that for the record.

Mr. LEHMAN. Well, if I could put in the record the Bush Administration report.

Mr. ROTH. Well, without objection—

Mrs. MEYERS. Mr. Chairman.

Mr. ROTH. Yes.

Mrs. MEYERS. I am not so sure that we are interested in what President Bush did and what President Clinton did as to the basic question that Mr. Rohrabacher is asking. And that is that if we publish after 18 months, does that not allow a tremendous advantage to the Japanese, and all they have to do in return for this tremendous advantage is just say yes or no after 36 months?

Mr. LEHMAN. Well, there is a lot more to our agreement with Japan than yes or no after 36 months. It also includes giving us complete exclusivity over the technology in their marketplace which is a very important part of it.

Mr. ROHRABACHER. Once they have said yes or no.

Mr. LEHMAN. But the important factor, and I do not think you were here when I described that, is that most Americans that want to do business in Japan already file in Japan and other markets and they disclose their technology at 18 months. So, first, it is al-

ready disclosed. And, second, I think Mr. Rohrabacher has a point and that is that people who do not wish to expose their trade secrets without knowing that they are going to get a patent or an awfully good likelihood of it should have the option of keeping it a secret. I do not disagree with that. And what I have said is that I think Congressman Moorhead has already gone a long way toward resolving that problem. I am more than willing—and I think there are some things we can do to absolutely tie it down. So I do not think that that is a big problem.

Let me say I think the reason that the Japanese asked for these particular changes is that you have to keep in mind that Japanese companies are not used to the rough-and-tumble litigious environment of the American system. And so when they looked at international patent harmonization and negotiations, there are, inevitably, quid pro quos. And they said, "Well, what is it we would like improved in the United States?" I think they wanted the same thing that American companies, by and large, wanted. And they wanted a patent system where they could get in and out of our patent office more quickly, and where they could have a more certain patent system so that they knew they were not going to be sued by a submarine patent person where they would not be making investments in technology that was not disclosed to them. I do not think you have to attribute necessarily evil motives to every single Japanese businessman. I think this made sense.

Mr. ROTH. Thank you very much, Mr. Lehman.

Mr. LEHMAN. Mr. Chairman, thank you very much.

I will just close by saying I am not attributing evil motives to the Japanese, but I do think that when our negotiators negotiate with Japan, we should not be giving them the benefit of the doubt. Thank you very much, Mr. Chairman.

Mr. ROTH. I want to thank the Members of the Committee. And I want to thank you, Mr. Lehman, for your testimony. The only person that has been here longer than you has been the Secretary of State. So you have been doing a good job.

I just want to say that I know Mr. Rohrabacher has some strong feelings on this matter as other Members do. I want to emphasize that just because a bill is introduced by Mr. Moorhead or anybody else does not mean it is going to be law. The bill is a long way from rectifying the problem. I know you have got a tough job and I realize you are doing your best.

Mr. LEHMAN. We will try to work with you, Mr. Chairman, on any questions you might have and to try to solve the problem and to satisfy Mr. Rohrabacher if we possibly can.

Mr. ROTH. Thank you very much.

Now I would like to call on Mr. David Hill and Professor James Chandler.

Dr. Hill and Professor Chandler, it is good to have you with us today.

Mr. CHANDLER. Thank you very much.

Mr. ROTH. I think we will start out from our left and move to our right. We will ask Dr. Hill for his testimony and then we will go to Professor Chandler. Following, we will open it up to questions from the Committee.

**STATEMENT OF DAVID L. HILL, PRESIDENT, PATENT
ENFORCEMENT FUND, INC.**

Mr. HILL. Thank you, Mr. Chairman, and Members of the Committee. I am grateful for the opportunity of appearing before you today. My name is David L. Hill. I am the chief executive officer of Patent Enforcement Fund. We share the ownership of a number of major patents with independent inventors and are working with them in the licensing and enforcement program to attempt to make the patent system more effective in certain selected cases.

I welcome the opportunity to testify today because in my judgment in the field of international economic policy and trade, there has been seldom a greater need for congressional oversight. I refer to the agreements that were entered into with the Government of Japan and I shall testify to those in some detail. I will submit my written prepared testimony to you for the record and I will summarize some points as we go along.

Perhaps I could make a few comments to begin in response to a few observations of Commissioner Lehman. He speaks of the objective of having our inventors in the United States have the same rights throughout the world. I share that objective, but we have a different way of reaching it. His method as demonstrated by the agreement entered into with Japan is to diminish the U.S. system which I think we will clearly agree is the best in the world and to degrade it to the level of the Japanese system which is one of the worst in the world.

I think that the proper approach is to use this debate on patent rights to enable the systems throughout the world to be advanced to the high level of the U.S. system and as the world grows smaller, all of us benefit if the incentive of intellectual property is present in other parts of the country to the same extent that it is in this country. That is an objective that I think we should attempt to reach.

Now, there has been a good bit of mumbo-jumbo in the discussion back and forth as to the length of term for a patent to issue. There are many patents and one can apply for patents that are quite trivial. Some people even get patents because they think they would like to have them on their resume. But for the patents that really matter, it takes usually many years for the patent to issue, for the patents that are breakthrough patents.

I know, for example, some of my acquaintances have had 5, 10, 15 years pass before the patent issued. A friend of mine who has 20 patents in the field of keyboard electrical instruments tells me that the average period for the issuance of his patents is 6.2 years. Another acquaintance who is in the field of biotechnology tells me that the main period for the issuance of patents in this important developing area is 7 years. So it is not so much the fact that a large number of relatively unimportant patents go through quickly so that the average is low and Commissioner Lehman may be right. Perhaps the average is 1.9 or 2 years. But that is not the point. The point is to understand what the purpose of the system is and the relevance of the proposed changes to that purpose.

The U.S. system is the best in the world because it succeeds in establishing a genuine incentive for innovation by providing to the U.S. inventor enforceable rights and the right of exclusion. The pro-

posals now coming in with publication after 18 months goes directly to the heart of that.

Recently there was a publication in the press of a concern—does that mean my time is out?

Mr. ROTH. No, you can continue, but you will probably want to start summarizing your points.

Mr. HILL. I have only begun, Mr. Chairman.

Mr. ROHRABACHER. You have only got a couple of minutes.

Mr. HILL. What is that?

Mr. ROHRABACHER. You have only got a couple of minutes and then we will go into questions and answers.

Mr. HILL. All right.

Mr. ROTH. We will put your entire statement into the record.

Mr. HILL. All right.

There was a statement a moment ago about the fact that many witnesses had agreed with the position that is proposed by the patent office. Well, that is easy to arrange if you select your witnesses. The people who have testified have been selected carefully. I know that there are many inventors organizations which oppose the changes that are being made. I have some of the letters in front of me, Small Business Legislative Council, National Association for the Self-Employed, American Small Business Association, Small Business Survival Committee, American Council on Education, Association of the University of Technology Managers, and so forth. The Small Business Legislative Council represents about 100 other organizations. Where were they when the treaties, when the agreement was entered into, the resulting agreement was bundled with the GATT legislation? There was not even an opportunity for the Congress to discuss it. And now recently there have been other instances in which the agreements have been rushed through without discussion. So I can assure you that if we look at the significance of the independent inventor and understand that his work leads to the creation of the great corporations, then it is urgent that those of us who work with the constituency which is the general interest of the American public, need to understand the viewpoint of the individual inventor and how it relates to these changes. I assure you we are opposed adamantly to the effects as set forth in my written testimony.

[The prepared statement of Mr. Hill appears in the appendix.]

Mr. ROTH. Thank you very much for your testimony. You have eloquently stated your case and we appreciate it, Dr. Hill.

We will now hear from Professor Chandler.

STATEMENT OF JAMES CHANDLER, INTELLECTUAL PROPERTY INSTITUTE

Mr. CHANDLER. Thank you, Mr. Chairman.

I would like to address each of the agreements directly and I would like to direct my attention to the language contained in each agreement as it has been enacted into law or is proposed to be enacted into law.

Take the agreement of January 20 which proposes basically the conversion from the 17 years from the date of invention to 20 years from date of filing. And we read that in connection with the third paragraph of this agreement.

What it provides is that if you apply for a patent, let us say in 1984, and you file a continuation application because your invention has not been issued in 1995 by June 8th, your rights in that application when you applied was for a 17-year term. Under this agreement, your right will be to a 20-year term from date of application in 1984. And if you think about that for a moment, what it does is to effectively reduce the patent term which that applicant had in mind and it would include all inventions prior to 1984—prior to June 8, 1995. You have effectively deprived them of a constitutional right in their application which our present patent law describes as personal property. You have ripped it off. And the government under the 5th amendment has no right to rip that invention off.

I understand that the Japanese may not understand American constitutional law, but the Commissioner of Patents should. The Secretary of State should and certainly should the Attorney General of the United States.

I would consider the combination of these three to be unconstitutional and we would welcome the opportunity to represent a patent applicant who has been subjected to this deprivation of rights. If your application were filed prior to June 8, 1995, and you filed a continuation after June 8, 1995—1975 to 1995, you do not have any more rights. You might as well take your marbles and go home, because if you are issued a patent under this language, it is of no value because your patent term is limited to 20 years and all of that has been taken away from you so that as I view this proposed change in our law and responding to the question and I think you should ask the question, "Why would the Japanese make this particular request?" Because it does not know what is pending in the U.S. Patent Office and this reaches back 20 years and forces the applicant to disgorge his patent or abandon it and why in the world should the American Government do that to its inventors? That is what is wrong with the January 20 agreement.

I also could direct or make comments—that is why I object to the 17-year from invention versus the 20 year from date of filing. I think that is a mistake to make that change.

I am focusing only on the problems with these two agreements, the next agreement which calls for the 18-month disclosure. I think that it is disingenuous to believe that this request for 18-month disclosure is accidental on the part of the Japanese. The entire Japanese system, and I have heard comments on it. We have studied that system pretty carefully. As of 1994, I think January 1994 when we ended our study of their system, it was taking 13.5 years on the average for an American inventor to secure a patent in Japan. So they had effectively a 6.6 year term.

We also studied the period in which the United States was issuing its patents and it was 4 to 5 years in terms of the period of time it took for the issuance to take place.

What they have proposed in this agreement is that if you apply for acceleration of your patent application, and they have a host of conditions here that must be met before you can apply for acceleration, then they guarantee that you will either get an issuance of a patent or a rejection of a patent within the period of 36 months. And it is easy to comply with that requirement because all you

have to do is to reject the patent. And if the first office action is issued in our patent office or in the Japanese patent office or any patent office around the world is done I could guarantee, if I were a patent commissioner, that I could have a first office action in 6 months. I just require my examiners to either make a determination that they can issue or grant within 6 months and it would be fairly simple.

Now, let me observe the reason why the 18-month disclosure is important and why everybody else in the world has 18-month disclosure rather than the United States. Vice President Quayle's committee, Commission on Competitiveness, did a study of where the inventions in the world are being made. And that Commission reported that there are more inventions, production of intellectual property, 10 times more production of intellectual property in the United States than anywhere else in the world. And if I were elsewhere in the world, I would want an 18-month disclosure because Americans are inventing and bringing the technology there. And if I had my dream of dreams, I would want 18-month disclosure in the United States because all of a sudden this huge reservoir of technology being produced in the United States would be available to the peoples of the world. And there is nothing in the system that would preclude a foreign competitor from using the technology. And I listened carefully to the statements which suggested that maybe the Japanese and the Koreans would not use it.

But the Chairman, I am sure, is aware that the Japanese made a deal with the Defense Department that if they had access to some secret high technology to build huge weapons for the United States, highly classified, they swore that they would keep it secret. They had no more gotten it under their belt gut when they were trying to peddle it against the United States to our sworn enemy, the Soviet Union.

Why should anyone believe that they will keep an agreement with respect to such technology now?

I think the 18-month disclosure is designed to put the technology in the public domain. Mr. Lehman observed that our Constitution requires that the quid pro quo for disclosure is built into the Constitution. But Thomas Jefferson spoke on this question and he wrote the most important patent law in the country which lasted from 1794 to 1952. And he said that the quid pro quo is to induce the inventor who has the invention in his mind to make it public in exchange for the patent protection.

We are now ending that quid pro quo. We are saying that we are going to make it public whether you have what you deserved, whether you expected the patent protection or not.

[The prepared statement of Mr. Chandler appears in the appendix.]

Mr. ROTH. Dr. Chandler, I thank you for your testimony. I know you have given this a good deal of thought and I can see you are very learned in this area. Why don't we go and vote and return to ask some questions? We will not keep you too long. I promise.

[Recess.]

Mr. ROTH. Dr. Chandler and Dr. Hill, I am sorry to keep you waiting. We had two votes and we have a vote still pending. And

let me just quickly ask a couple of questions in case there are any others that would like to ask a few questions.

Dr. Chandler, I was interested in the problem you raised regarding the disadvantage to those who are renewing their patents caused by the new rules. Can you elaborate on this a little bit? Would a solution to patents under the old rule be a grandfather clause?

Mr. CHANDLER. I think that, first of all, we are referring to continuation applications.

Mr. ROTH. Yes.

Mr. CHANDLER. And I think that those pending, any application pending on the date this law became effective should certainly be grandfathered. That would be one way to approach it.

But if you will note, the agreement specifically provides otherwise. I mean this agreement here that they signed, that Commissioner Lehman signed with the Japanese.

Mr. ROTH. I am troubled by the support of big companies for these new terms. Would they do that if it gave the Japanese a big advantage?

Mr. CHANDLER. Well, I think that first of all more than half the patents and inventions that produce jobs in this country are not invented by those people, these large companies. It is invented by the individual inventor. And second, I think that these companies believe that they have the resources to compete with the large Japanese organizations in protecting their inventions. They have the resources. They have the lawyers to prosecute claims and infringement actions.

It is the small inventor who does most of the inventing in this country. He simply does not have the resources to compete with Mitsubishi once his inventions are in the public domain. So that the right to go back and recover from Mitsubishi for their unlawful use of your invention is almost worthless. These people barely have the money to pay a lawyer to prosecute their claim through the patent office. It might cost them, you know, \$20, \$30, \$50,000. That is a lot of money to the average inventor.

Mr. ROTH. You know, Dr. Hill, to sort of dovetail with that, the way I see it is that some of those large corporations are outwaiting individual inventors. I do not know too much about it, but it seems to me if I were a big CEO and you were the inventor, I would say to our people, "Maybe we can outwait him."

Mr. HILL. Yes. There is an immense disparity between the independent inventor and the corporation. It is interesting to look at the statistics, Mr. Chairman, that have been published by the Department of Commerce in a report included as an appendix in my testimony which makes it clear that almost all of the inventions which really make a difference, which really open up new industries come from individual inventors working alone or in small companies.

The large expenditures are by major corporations and the major R&D comes from those expenditures, but the inventions that come out of them are improvements of existing products. And the people who work as independent inventors create the basis out of which large corporations grow. Then as the corporations grow, ultimately, the founders die and the corporation develops its established field,

the patent law is essential to the growth of such a corporation by enabling it to protect its profit margin and develop the field that it has chosen.

But the creative people who do the really fundamental inventing tend to leave. They are not programmable to work on an established field. They are innovative. It is too much to try to channel them into a small area. So the really creative people are almost always outside of the big corporations. And those are the people that are responsible for the vitalization of the U.S. economy because it is their work that leads to the creation of the great corporations.

Now we have an odd situation in these big companies in which mid-level managers sometimes think that they are serving the ownership well by denying the rights of the outside inventor and saving those royalties that they might have to pay and by an extension of that attitude they seem to be in favor of changes in the patent laws which would be greatly to the disadvantage of the independent inventor, expenditures such as advance in the costs of re-examination, having outside parties sit in with the inventor when he attempts to defend his patent, have him participate in examiner interviews, have him with the right to answer every statement that the inventor provides. This is explicitly called out in the Brown-Kuriyama agreement, one of the two agreements that we are talking about today.

That is an expense which the large corporation can readily handle, but it is a crushing burden to the independent inventor. So it would tend—if an independent inventor makes a major contribution which large companies find inconvenient, it may encroach on their turf or it may preserve a turf they would like to be able to move into, then those companies whether they be Japanese or Korean or American or wherever, they can create an insupportable burden with that inventor by continually loading him with administrative expense so that he is ultimately forced to give it up. So that is just one of the ways in which these agreements that have already been entered into by officers of the United States tend to disadvantage the very class of people who are responsible for the economic growth of this country.

Mr. ROTH. Well, I thank you very much. I think we are going to ask Mr. Rohrabacher if he has any additional questions, because there are more and more Congressmen coming in. We have just been visited by Congressman Zack, my good friend from Tennessee. Nice to have you join us, Zack.

Dana, do you have any questions?

Mr. ROHRBACHER. I would like to ask both of you just to comment on why should we not trust the Japanese? Are they operating in good faith here? I mean after all, that is what Mr. Lehman's main point was as he was speaking, trying to improve the system of trade between our countries?

Mr. HILL. Shall I respond first?

Mr. ROHRBACHER. Both of you, please.

Mr. HILL. I think the Japanese can be trusted to act in their national interest. I think they can be reliably expected to act in their national interest as they have done so in the past. They felt it was in their national interest to attack us at Pearl Harbor. We were able to turn that back at great cost ultimately to the Japanese and

to the United States. I think they continue to operate in their national interest now.

There was a very interesting quotation that was just brought to my attention which is due to Saburo Okita, who is one of the principal architects of Japan's economy. And toward the end of the second World War when he realized the Japanese were losing, he wrote something which I think gives us a clear indication of the Japanese planning because he participated in the structuring of the Japanese economy following the World War. As you know, the United States contributed to that substantially with many economic programs.

Saburo Okita said, at that time, "I would actually be happy if rearmament is completely prohibited. An army in uniform is not the only sort of army. Scientific technology and fighting spirit under a business suit will be our underground army. The Japanese American War can be taken as the cocky losing to the business suits." This is excerpted from a book written by Okita who became Foreign Minister of Japan shortly before his death in 1993. This book is entitled, "Japan's Challenging Years." And he lays it out very clearly.

And I think the Japanese have been very forthright in telling us what their plans are. We ought to take them at face value.

Mr. ROHRBACHER. But, Dr. Hill, the Japanese have a totally different concept of the individual versus society and I think that Dr. Chandler, in your comments about Jefferson, so ably pointed out that our patent system has been a part of our society and our fundamental system of law and our vision of where the individual fits in to the society, and the Japanese have had a totally different view from the beginning of this, have they not?

Mr. HILL. Yes, they have indeed. The Japanese have a very close relationship between their major corporations and their government which has in many ways been very helpful to them in developing their economy. Their patent system reflects that close relationship and shows the dominance of corporate interest in the construction of the patent system. Their patent system is mainly for the purpose of spreading information rather than for creating intellectual property rights which can create independent incentive to the creator of the invention. So, it is a totally different philosophy and in this country we follow the guidance of the founding fathers as enshrined in the Constitution. And the ability to protect the individual rights, the genius of the U.S. patent system is that it truly mobilizes the genius of invention by giving, or at least the intention is to assure that the inventor will retain a reasonable part of the wealth which is created by his invention. That is a powerful incentive. The total royalties presently being paid are in the neighborhood of \$150 billion and that is a true incentive which is largely wiped out by these changes that are envisioned in the agreements with the Japanese.

Mr. ROHRBACHER. Dr. Chandler.

Mr. CHANDLER. I would like to make an overall observation so that my remarks can be put in context. First of all, I am aware that not all of these agreements have been implemented *prima facie*. Otherwise, I presume there would be discussion. But the fact that there are agreements that oblige our government and our

Commissioner of Patents to take certain actions, I have taken the opportunity to comment on these provisions today.

With respect to the agreement of January 20, 1994, I have found no redeeming feature in it. And, so I have spoken out against each of those provisions. We have agreed to make these major changes in our patent law in exchange for the Japanese providing us with the opportunity to file an application in English with the duty to file it in Japanese after 60 days. That is an entirely trivial concession in exchange for our changing from 17 years from date of issue to 20 years from date of filing and the extraordinary provisions in Part 2 and 3. You really have to ask—I do—why the United States would ever enter into such an agreement. What is in it for us? Why would we do such a thing?

And for that reason I have spoken in condemnation of this. While doing that, I do not mean to suggest that the Commissioner and his staff, Mr. Michael Kirk and others, have acted in bad faith. I do not want to leave that impression with the Committee at all. I think it is an honest disagreement between professionals in this field and I have sought to offer the Committee the basis of my objections to the actions taken.

With respect to the agreement of August 1994, there are some provisions in it which I think are helpful. They improve the Japanese system and there are some provisions which are to some extent innocuous in terms of their effect on the American inventor.

But then you have the very damning provision converting to 18-month disclosure and I would ask, "Why in the world would the United States go to that extraordinary expense? Who is going to publish these? And who is going to pay for these? And how is it going to be managed? Where is it going to be housed?" These are tremendous questions which no one really has grappled with and how does that in any way benefit the United States? We have no obligation to harmonize with anyone if we have the superior system in the world.

And if you go back and you ask the question about the Japanese, the Japanese did not even have a civil law system until after World War II. Douglas MacArthur brought civil law to Japan. And he did not bring the civil law of the United States to Japan because it was far too complicated, far too sophisticated. Our patent doctrines, they still do not understand. I had 20 Japanese patent lawyers and judges and commissioners at the Institute over on H Street and Pennsylvania Avenue, 1815, where we house facilities just 2 weeks ago. We have a constant parade of Chinese and Brazilians and Koreans and Taiwanese. They are frustrated. They are perplexed by the American system of justice. How is it that a court of equity can dislodge a title once issued by a government agency? Because our courts deem something that is done wrongfully as though it ought not to have been done and they make it right.

They have no equity jurisprudence in Japan. We have a dual system, a system of law and a system of equity jurisprudence and many of our courts still have a law division and an equity division. So what was brought to Japan by General Douglas MacArthur was a purely civil law system.

Why in the world should the United States be receiving guidance in the development of patent law in the United States when we have brought them the public law system of patent law ourselves.

I think that the Japanese are interested and they said, in fact, in a recent visit by the Japanese Patent Commissioner who signed this document to the United States with our Commissioner of Patents—the discussion was who makes the basic inventions that lead to new technologies and new enterprises. The Japanese Commissioner confessed that 80 percent of their patents whether filed in the United States or elsewhere are derivative patents derived from inventions made, research done primarily in the United States.

So I think that what they seek—your question was what do they seek? They seek access. They seek access to that huge reservoir of inventions which lie buried in secrecy in the patent office. And if I were a foreign leader head of state, I would have that as my same goal.

We spend over \$200 billion a year on basic research. There is not any other nation in the world that comes close to that. When you compare that expenditure by the United States against the expenditures of many other states, we spend on research more than most countries have in their entire annual budget. Well, if I were in those countries, Mr. Chairman, I can tell you what I would be doing. Not trying to raise 50 billion or 200 billion to compete with the United States I would be sending my people over there to collect it and doing everything I can to make the Americans make it available to me at no cost.

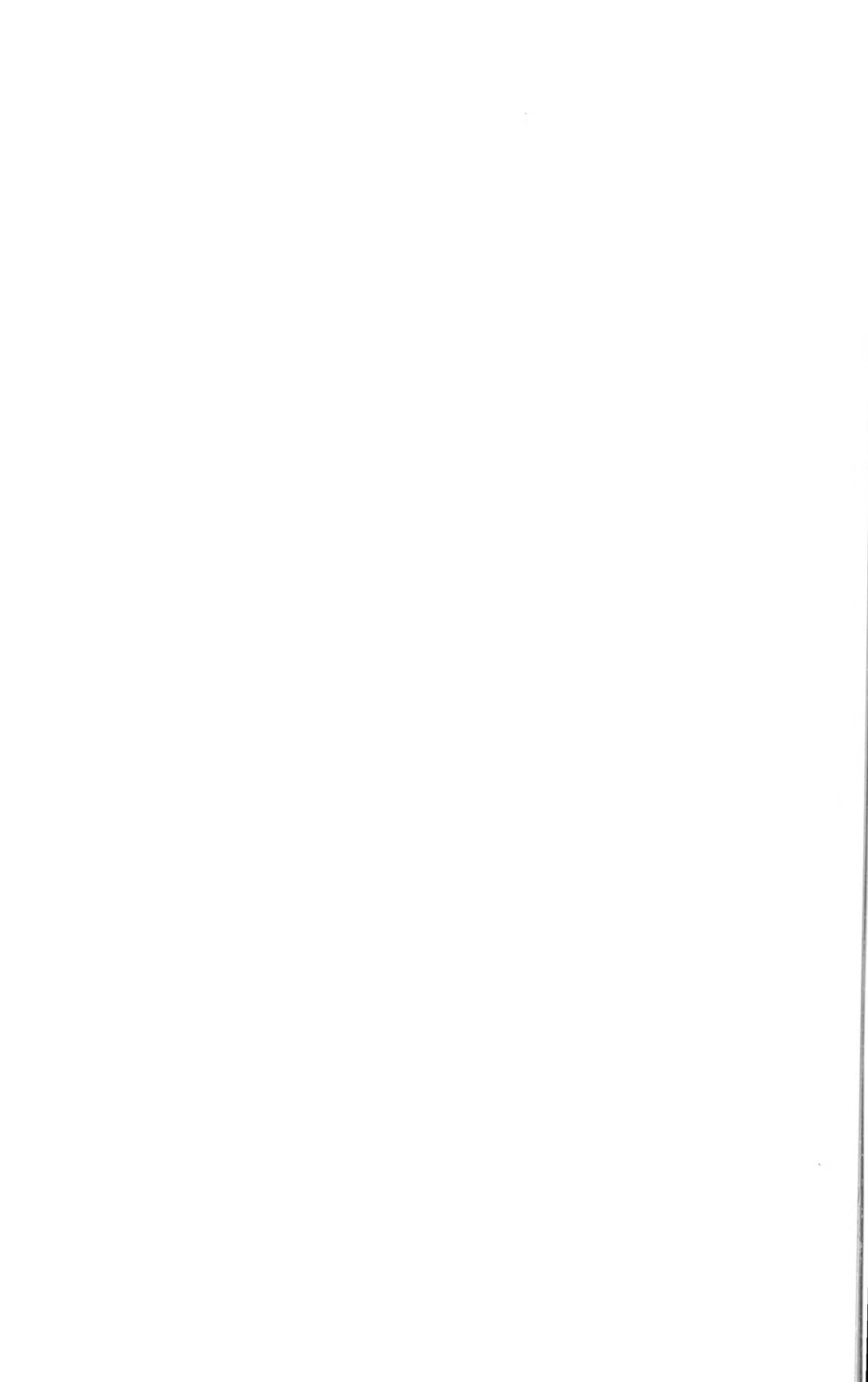
Mr. ROTH. And they are doing just that.

Mr. CHANDLER. And they are doing just that.

Mr. ROHRBACHER. Dr. Chandler, thank you. We all thank you.

Mr. ROTH. Thank you very much. We have heard some excellent testimony today. Out of all the hearings we have had, I think this is probably one of the most stimulating and one of the most informative. Thank you once again.

[Whereupon, at 3:40 p.m., the Subcommittee was adjourned.]



APPENDIX

**Statement of
Bruce A. Lehman
Assistant Secretary of Commerce and
Commissioner of Patents and Trademarks
on a
Review of the 1994 United States - Japan Patent Accords
Before the
Subcommittee on International Economic Policy and Trade
of the Committee on International Relations
U.S. House of Representatives**

October 25, 1995

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to provide a detailed review of the negotiations with the Government of Japan and the Japanese Patent Office. Those negotiations produced two 1994 accords which obligated the United States to set in motion certain changes to our patent system, changes supported by many in the United States that rely on patent protection in our market and abroad. In exchange for the obligations undertaken by the United States, the Government of Japan agreed to eliminate four of the most onerous barriers U.S. nationals face when they apply for patent rights in Japan.

Let me begin with a few observations about this hearing. I support unequivocally the need for hearings like this, which are designed to increase understanding of the role of the Executive branch in matters that could have far-reaching effects in areas such as international economic policy and trade. In your request to me, Mr. Chairman, you asked me to comply with Congressman Dana Rohrabacher's request that I review in detail the negotiations that produced the 1994 accords calling for changes in patent term, publication of patent applications and patent reexamination procedures in the United States. I intend to do all I can here today to satisfy Congressman Rohrabacher's quest for information on these issues

In light of the purpose of this hearing, however, it is unfortunate that the one individual with the greatest first-hand knowledge about the negotiations that

produced the 1994 accords, about domestic patent law reform, about international patent law harmonization negotiations, and about negotiations on intellectual property during the Uruguay Round trade negotiations was not given an opportunity to testify here today. That individual is Michael K. Kirk, who retired from the Patent and Trademark Office this spring after a long and distinguished career in public service, and who is now the Executive Director of the American Intellectual Property Law Association. Most recently as my Deputy Assistant Secretary and Deputy Commissioner of Patents and Trademarks and in other positions at the PTO earlier, Mr. Kirk was the lead negotiator for the United States in the many bilateral and multilateral intellectual property negotiations that have taken place in recent years; including the Agreement on the Trade-Related Aspects of Intellectual Property, now administered by the World Trade Organization, the World Intellectual Property Organization's patent law harmonization negotiations, and the U.S.-Japan bilateral intellectual property negotiations from their beginnings in 1988 until his retirement from the Patent and Trademark Office in March of this year. I am sorry that this subcommittee has been deprived of Mr. Kirk's insights on all of these negotiations.

There are also many others who could have shed light on the issues to be examined here today. Assistant Secretary and Commissioner of Patents and Trademarks during the Bush Administration, Harry F. Manbeck, Jr., for example, was instrumental in leading the United States to the precipice of major patent law reform. The members of the Secretary of Commerce's Advisory Commission on Patent Law Reform, appointed in 1990 by Secretary of Commerce Robert Mosbacher, examined patent law reform issues, including patent term, early publication and reform of the reexamination system, could have provided useful information. Representatives of the many bar and trade associations that have long favored domestic patent law reform and international patent law harmonization could also have provided insights into the development of this Administration's policy on intellectual property, a policy not significantly different from that of the Bush and Reagan Administrations. The absence of all of these critical players places a heavy burden on me to review the policies not only of this Administration but of the two Republican Administrations that preceded President Clinton's.

Let me begin. The negotiations that produced the 1994 United States - Japan

patent accords were not negotiated and concluded in a vacuum. Rather, they had their origin in an atmosphere of patent law reform that has long permeated this country.

In 1966, President Johnson established a Presidential Commission on the Patent System to consider needed reforms in our patent system. The 1966 Commission made an extensive study of the U.S. patent system and recommended a number of significant changes. Several features of our current patent system, such as the reexamination process, the internal quality review program, and certain automation efforts, resulted from the 1966 Commission recommendations. A number of other recommendations were not adopted despite substantial support. For example, the Commission recommended adoption of a first-to-file system, a patent term of 20 years from filing date, and automatic publication of patent applications after a fixed period.

In the 1980s, the atmosphere for domestic patent law reform was electrified with the prospect for international substantive patent law harmonization. In 1984, the World Intellectual Property Organization (WIPO), a specialized United Nations agency responsible for intellectual property matters, initiated negotiations on what became known as the draft Patent Law Treaty or PLT. The United States was the critical player in these negotiations. Through the PLT, the United States sought to eliminate many of the problems that American patent applicants faced when they sought to obtain timely, exclusive patent rights abroad, particularly in Japan. Timely, exclusive rights enable businesses to earn a share of the Japanese marketplace and in the markets of other countries, a share on which they can build business relationships that are crucial to future trade.

The success of the PLT hinged on the willingness of the United States to adopt a first-to-file patent system -- that is, a system of awarding priority in disputes between two inventors to the first party who filed a patent application, rather than our current system, which awards the patent to the first inventor. The United States participated in the PLT negotiations during the Reagan and Bush Administrations seeking a package of concessions from other countries that would be significant enough to balance the adoption by the United States of a first-to-file patent system, thereby making the draft treaty, on balance, of benefit to the United States.

In 1990, President Bush's Secretary of Commerce, Robert Mosbacher, established a Commission on Patent Law Reform to advise the Administration on the state of the U.S. patent system. The Commission was chaired by Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, Harry F. Manbeck, Jr., and, on his departure, by his successor, Acting Assistant Secretary and Commissioner of Patents and Trademarks, Douglas B. Comer. The Advisory Commission held public hearings on and studied many patent related issues including, among other things, key questions related to patent harmonization.

The Commission's recommendations on harmonization issues outlined a carefully balanced approach that should have made a first-to-file system acceptable to the United States. The following recommendations of Secretary Mosbacher's Advisory Commission on Patent Law Reform are relevant to the hearing today:

(1) The Commission recommended adoption of a first-to-file system in the United States, if a global patent law harmonization treaty, on balance, provided an overall benefit to U.S. interests. If such a balance was achieved, the Commission recommended that the United States provide inventors with the ability to file low cost, informal "provisional applications" that would secure their rights to obtain patent protection both domestically and abroad.

(2) The Commission recommended that the U.S. patent term be changed to one that would run for 20 years measured from the date of filing of the earliest-referenced patent application.

(3) The Commission recommended that U.S. patent applications be published at a fixed time after filing and that provisional rights be provided after publication to compensate inventors for any unauthorized use of their inventions in the interval between publication and patent grant.

(4) The Commission recommended that the basis for and scope of reexamination be expanded to include compliance with all aspects of the disclosure and claiming requirements of our patent law, except the best mode. The Commission also recommended that third parties be provided more opportunities for substantive participation during reexamination proceedings.

I do not mean to imply that the changes to our patent system of the magnitude of those envisioned by the draft PLT and Secretary Mosbacher's Advisory Commission on Patent Law Reform were not without controversy. Even though many of those changes enjoyed deep support among our user community, there was opposition. When I became Assistant Secretary and Commissioner of Patents and Trademarks in August of 1993, I immediately charted a course to ensure that the proposed changes did, indeed, have the necessary broad-based support of all of the users of our patent system, in addition to the deep and well-known support of many of our users. To that end, on August 20, 1993, I announced that the Patent and Trademark Office would conduct a series of public hearings to obtain the views of the public on the effort to harmonize the patent laws of the world and the consequent changes to United States patent law.

Today, I will discuss the results of those hearings as they pertain to the issues of first-to-file, measuring patent term from the filing date of the application and the early publication of patent applications. In view of testimony received at the public hearings, I recommended to the Secretary of Commerce that the United States not proceed with negotiations on the patent law treaty at that time. Secretary Brown accepted my recommendation and, on January 24, 1994, he announced that the United States would not seek to resume negotiations of the treaty at that time. Secretary Brown was not convinced at that time that small inventors and entrepreneurs would sufficiently benefit if we made a switch from our first-to-invent patent system to a first-to-file system.

The results of the hearings on the issues of measuring patent term from the filing date of the application and the early publication of patent applications were far more promising. On the issue of measuring patent term from the filing date of the application, less than 10% of the people or organizations that provided comments opposed the concept, in its entirety. Those not opposed included representatives of inventor's groups and small entity patent applicants. Further, every major intellectual property bar association and the National Association of Manufacturers supported the change in patent term. On the issue of the early publication of patent applications, only 25% of the people or organizations providing comments opposed the concept. Forty-four per cent of those who opposed expressed a preference for some form of pre-publication indication of

patentability. Such a mechanism is provided in H.R. 1733, the Patent Application Publication Act of 1995, which the PTO vigorously supports. Those not opposed to the concept of early publication in its entirety included representatives of inventor's groups and small entity patent applicants. Every major intellectual property bar association and the National Association of Manufacturers supported this proposed change.

In July of 1993, while the concept of holding public hearings on patent law harmonization was still taking shape, I was given a leadership role by the new Administration in the intellectual property negotiations in the United States - Japan Framework Agreement. I welcomed this role as I was and still am fully aware of the relationship between a strong intellectual property system in Japan and the ability of U.S. inventors and companies to gain a foothold in the Japanese market from which they can build market share. The issues raised by the United States were the same as had been raised during meetings of the U.S./Japan Working Group on Intellectual Property in 1988 and 1989 meetings and during the Structural Impediments Initiative discussions in 1990. On the patent side these issues, from the previous negotiations, included were long delays in examining applications in the Japanese Patent Office, the inability to file applications in English and to rely on the English filing to correct any translation errors, pre-grant opposition, narrow scope of claims, lack of a "grace period" after disclosure of an invention by the inventor before a application must be filed, protracted court procedures to enforce patents, and narrow interpretation of patent claims by courts. Neither the Working Group negotiations nor the Structural Impediments Initiative discussions produced any significant commitment for change by the Japanese.

In the Framework negotiations, the Administration's main goal in relation to intellectual property was to enable U.S. patent applicants to obtain timely and exclusive patent rights in Japan. We wanted to achieve a patent system in Japan that promptly grants to U.S. applicants patents that provide a reasonable scope of protection for the patent owners. The success we ultimately achieved in this area serves the Administration's goals of stimulating technological growth here in the United States and promoting U.S. exports to Japan, with the medium term goal of bringing Japan's economy in line with the other industrialized countries of the world and creating more jobs in the United States.

At the same time the United States - Japan Framework negotiations were getting underway, the General Accounting Office (GAO) released, on July 12, 1993, a report on its year-long study of the Japanese patent system, a report requested by Senators Rockefeller and DeConcini. Entitled "Intellectual Property Rights - U.S. Companies' Patent Experiences in Japan," GAO's report provided renewed focus for our bilateral intellectual property discussions with the Government of Japan. The report contained the results of the GAO's survey of approximately 350 U.S. companies regarding their experiences in obtaining and enforcing patent rights in Japan, the United States, Europe. The survey confirmed that U.S. businesses, regardless of their size, continued to have significant problems obtaining timely, exclusive patent rights in Japan and enforcing rights once acquired.

In the survey, companies were asked to quantify what they believed would alleviate the most serious impediments for U.S. applicants in the Japanese patent system. The top six improvements, measured by the percentage of respondents indicating that a problem existed at least "to a moderate extent" were: (1) allow initial filing of application in English (88.7%); (2) accelerate examination processing (73.9%); (3) apply a doctrine of equivalents (62.7%); (4) adopt a 12-month grace period (67.4%); (5) change from pre-grant to post-grant oppositions (49.0%); and (6) change from 7-year examination deferral to 3-year examination deferral (46.2%). In addition to these specific concerns, a number of U.S. companies encountered problems with the use of so-called "dependent patent compulsory licenses." These are licenses that can be granted by the JPO to the inventor of an improvement over a broad or "pioneering" invention, that would allow the owner of the improvement patent to use the patented "pioneering" technology. The threat of these compulsory licenses has, over the years, encouraged cross-licensing among competitors in Japan, further eroding the degree of exclusivity granted by a Japanese patent.

As I noted, the GAO's report renewed the focus for our assault on the problems of obtaining meaningful patent protection in Japan. Two multilateral ongoing negotiations addressed some of these problems - the Uruguay Round GATT/TRIPs negotiations, which we implemented in December of 1994, and WIPO's PLT negotiations, which stalled and is now taking a new direction. The

Clinton Administration took the GAO's findings to heart in our bilateral negotiations with Japan under the Framework. The report gave us statistical support for the anecdotal horror stories about the Japanese patent system.

The patent portion of the intellectual property negotiations under the Framework focused on the same eight problems of the Japanese patent system as in our previous bilateral negotiations: (1) the lack of a broad one-year grace period; (2) the language filing requirement; (3) prolonged pendency; (4) pre-grant oppositions; (5) claim scope in examination process; (6) dependent patent compulsory licenses; (7) litigation delays; and (8) post-grant interpretation of claims.

There were three face-to-face negotiation sessions -- in October of 1993 in Washington, D.C.; in December of 1993 in Tokyo; and in June of 1994 in Washington, D.C. Michael Kirk, to whom I referred at the beginning of my testimony, was the chief negotiator throughout. The negotiations produced the two accords that are the subject of this hearing. The first accord was completed on January 20, 1994, and was signed by the Japanese Patent Commissioner Asou and me. The second accord was finished on August 16, 1994, by an exchange of letters between Secretary of Commerce Ron Brown and the Japanese Ambassador to the United States.

In analyzing the results of intellectual property negotiations under the Framework, we must view the two accords together, not as separate deals. That there are two accords rather than one is evidence only of the fact that certain issues were ripe for resolution in the negotiations earlier than others.

The January 20, 1994 accord called for the JPO to permit the filing of patent applications in English by July 1, 1995, and to allow correction of translation errors during examination and after grant. That accord called for the United States to introduce legislation by June 1, 1994 that would provide a 20-year patent term in the United States, measured from the earliest, non-provisional U.S. filing date. The JPO has fully implemented its obligations under this accord. It is now possible for U.S. applicants to file patent applications in English, with a translation to follow in two months, and to correct any errors in the translation based on the original English up to the time of the first office action and after

grant of the patent. This is important for U.S. applicants because businesses do not decide in which countries they will seek patent rights until close to the time they must file. Because translation into Japanese is costly it is not possible for most applicants to have the translation retranslated into English by another translator, and, as a result, translation errors are seldom caught before filing. The ability to correct translation errors by referring to the English language filing, therefore, also is of significant benefit for U.S. applicants.

The United States has fully implemented its obligations under this accord. On May 26, 1994, H.R. 4505 was introduced in accordance with the terms of the accord. Subsequently, that legislation was folded into the Uruguay Round Agreements Act and was enacted on December 8, 1994.

As I noted earlier, there was broad support in the United States, outside of the context of the Framework negotiations, for a 20-year patent term that was measured from the earliest, non-provisional U.S. application filing date. The TRIPs Agreement required a term of protection of at least 20 years from filing. Accordingly, we received in exchange for the commitment we made in the Framework negotiations, in and of itself a desirable and broadly supported change, concessions from the Japanese that addressed the patent problem identified in the GAO report as the most problematic issue for U.S. companies, of all sizes, in obtaining patent protection in Japan.

The August 16, 1994 accord called for Japan to eliminate pre-grant and consolidate post-grant oppositions by January 1, 1996; to institute a revised system of accelerated examination to conclude examination within 36 months of request by January 1, 1996; and to no longer render arbitration decisions ordering a dependent patent compulsory license after July 1, 1995. That accord called for the United States to introduce legislation by specific dates to have in place, by January 1, 1996, the early publication of patent applications and an expanded reexamination procedure. Japan has fully implemented its obligations under this accord. Legislation is pending to implement the U.S. obligations under this accord. An early publication bill is pending in the House - H.R. 1733. A corresponding early publication bill should be introduced in the Senate very soon. Bills providing for expanded reexamination - H.R. 1732 and S. 1070 - were introduced. Similar bills were introduced in the previous 103rd Congress, in

keeping with the terms of the accord. The Administration strongly supports the current bills and is looking forward to their implementation by January 1, 1996.

As with the change in patent term, early publication and expanded reexamination have long had broad support in the United States. This support is evidenced, as I discussed earlier, by the recommendations of Secretary Mosbacher's Commission on Patent Law Reform and the results of the public hearings I held in October of 1993. The concessions we obtained from Japan in the Framework negotiations were highlighted as some of the major problems U.S. applicants have with the Japanese patent system. I always regarded a big negotiating win as a situation in which you gain something important in exchange for something that is, otherwise, desirable and supported. These accords did that.

While it will take some time to determine the full effect of the Japanese accords on U.S. users of the Japanese patent system, it goes without saying that we have enhanced the timely grant and exclusivity of patent rights in Japan. On the issue of timeliness, applicants who request accelerated examination will have their application examined within 36 months, compared with 5 to 6 years today. Applicants will no longer be burdened with the time and expense of multiple, serial pre-grant oppositions. Their patent rights will be determined in a timely manner and any oppositions will be consolidated and dealt with after the patent has been granted. On the issue of exclusivity, the threat of dependent patent compulsory licenses has been removed and the exclusivity of patents granted in Japan has been ratcheted up a notch. These are BIG WINS for U.S. users of the Japanese patent system. The ability to file applications in English and correct translation errors based upon the original English will make the Japanese patent system more user friendly and may preserve critically important rights once errors in translation are detected. This enhanced timely exclusivity will benefit Americans who do business in Japan and will serve to further the Administration's goals of stimulating technological growth, promoting exports, and creating jobs.

For your information, the Administration is continuing bilateral intellectual property discussions with the Government of Japan on issues that were raised, but not resolved, during the Framework negotiations. These issues include disclosure requirements and claim scope during patent examination and the lack of a

uniformly applied doctrine of equivalents in post-grant infringement litigation. These are important issues for U.S. high-technology companies that have managed to maintain their technological edge despite problems in Japan. New issues are also being discussed - the protection against parallel imports of patented goods and the protection of famous/well-known trademarks. We met in June in Tokyo and will meet in Washington next week.

An important aspect of our bilateral relations with Japan in the field of intellectual property is our ability to implement the 1994 accords in a timely fashion. We must conduct these new negotiations in good faith, by putting into place these changes that are desirable from the point of view of the United States and are supported by a broad cross-section of the users of the U. S. patent system.

I remain committed to an improved patent system in the United States. I firmly believe that the Uruguay Round Agreements Act established the foundation of the path to that improved patent system and that enactment of the currently pending early publication and expanded reexamination bills will ease our passage down that path. The fact that we have been able, at the same time, to effect significant changes in the Japanese patent system should be acknowledged as the windfall to U.S. interests that it is. The end results for all U.S. individuals and businesses will be a greatly improved domestic patent system and a greatly improved patent system in Japan.

Thank you very much for your attention. I would be happy to entertain questions.

U. S. House of Representatives
Committee on International Relations
Subcommittee on International Economic Policy and Trade

Testimony of Dr. David L. Hill
President, Patent Enforcement Fund, Inc.
October 25, 1995

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**U. S. House of Representatives
Committee on International Relations
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Summary Statement

The two agreements entered into with the Government of Japan in 1994 concerning the U.S. Patent System constitute an astonishing blunder by the Administration. They take the U.S. Patent System which is clearly the best in the world and attempt to degrade it to the level of the Japanese Patent System.

The first agreement entered into on 20 January 1994 by Commissioner Lehman provides for a change of the patent term to run 20 years from the date of application rather than 17 years from the date of issue. It results in a severe decrease in the value of intellectual property for breakthrough patents that are primarily responsible for seeding the U.S. economy with new products and entirely new industries. The legislation to implement that agreement was bundled with GATT by deceptively claiming that it was required by GATT and the Congress was required to vote on it without discussion within the brief period that the GATT legislation was pending.

The second agreement entered into on 20 August 1994 by Commerce Secretary Brown with the Japanese Ambassador provides even more severe degradation of the U.S. Patent System by providing that applications may be laid-open after 18 months and that any third parties may participate with the patent owner in all stages of reexamination proceedings. Analysis shows that these changes will largely eliminate the value of intellectual property in the U.S. to the independent U.S. inventor who is known to be primarily responsible for the economic growth and vitality of the United States. These agreements provide no significant concessions from the Japanese in return and constitute an attack on the U.S. economy which in the long-term would be comparable to the military attack from Japan at Pearl Harbor. Fortunately, the current attack can be turned back by refusal of the Congress to pass the required legislation and by passing HR359 to correct the legislation that was rushed through for the change of patent term.

Most of our great corporations have grown out of the inventions of independent inventors. By protecting and strengthening the U.S. Patent System against attacks such as those attempted through the agreements with Japan, we are able to protect the seeding of our economy. Out of that seeding, other great corporations may arise in the future to expand further the U.S. economy.

Understanding the superiority of the U.S. Patent System over those of Japan and Europe may provide opportunities for improving those systems such that the rights of their inventors may be further enhanced. As the world grows smaller, every nation is enriched when the inventiveness and productivity of other nations is advanced through incentives arising from strong intellectual property rights.

U. S. House of Representatives
Committee on International Relations
Subcommittee on International Economic Policy and Trade

Testimony of Dr. David L. Hill
 President, Patent Enforcement Fund, Inc.
 October 25, 1995

Mr. Chairman, Members of the Committee, thank you for the invitation to testify before you. My name is David L. Hill. I am the Chief Executive Officer of Patent Enforcement Fund. We have a portfolio of major patents for which we share the ownership with the inventors. We are engaged in licensing and enforcing those patents in order to make the Patent System more effective in selected cases.

I welcome this opportunity to appear before you for, in my opinion, Congressional oversight has seldom been more urgently required than at the present time regarding the matters to which you have requested that I testify: namely,

- (1) the impact of the patent provisions which were included in the legislation to implement the 1994 Uruguay Round Agreement, and
- (2) the impact of the two 1994 agreements with Japan which led to the provisions on the terms for patent protection, publication of patent applications and the procedures for patent reexaminations.

I shall testify to these matters in some detail, but let me first begin with an overall summary statement.

INTRODUCTION

All of the items here addressed have to do with changes in intellectual property rights granted under the U.S. Patent System. **We begin with the recognition that the U.S. Patent System is the best in the world.** It is the envy of inventors everywhere outside of the United States. The systems in Europe are substantially inferior and the system in Japan is still worse. The criterion by which I make that judgment is the capability of the Patent System to stimulate innovation--to do what Abraham Lincoln referred to as **adding the fuel of economic incentive to the fire of genius.** It arises in the Constitutional empowerment to the Congress in Article I Section 8 that inventors shall have exclusive rights to their discoveries for a limited period of time. The U.S. System is superior to those of Europe and Japan because it provides clear and enforceable rights of intellectual property ownership to the individual inventor. Our system is characteristically American in growing out of the insight of Thomas Jefferson, James Madison and others of our Founding Fathers who were sensitive from their recent experience to the ways in which the rights of individuals could

be trampled and denied by centers of major financial and political power. Because our Constitution and the patent laws growing out of its empowerment have tended to give unique standing to the inventions of our best and our brightest, the resulting intellectual property has become a leaven that has worked throughout the U.S. economy to yield great growth and power.

I refer you to the ancient maxim: **If it ain't broke, don't fix it.**

Those inventions which lead to entirely new products and create new industries almost always come from the work of independent inventors working alone or in very small companies rather than from those employed by major corporations. The protection and fostering of individual genius is indeed the genius of the U.S. Patent System.

Why the Japanese Seek the Two 1994 Agreements to Change the U.S. Patent System

The Japanese Patent System, in contrast, favors corporate interests and suppresses the rights of the independent inventor. Accordingly, the Japanese are at a substantial competitive disadvantage with the United States in long-term economic growth. They understand that well and also understand that for reasons of their culture, linking their major corporations with their Government, they are not able readily to change their system. Therefore, they propose to change ours. That is what these agreements in 1994 were about. **If those agreements are sustained and enacted into legislation, then two principal results will follow:**

Consequences if the Agreements are Implemented by Legislation

A. Long-Term Worsening of the Present Unfavorable Trade Balance

The present unfavorable trade balance will worsen steadily and relentlessly over the long term. In the present age we are more and more dependent on exports based on information and innovation rather than on the products of smokestack industries. The proposed changes in the U.S. Patent System will dampen the wellsprings of innovation from individual genius which have supported and enriched us up to the present time.

B. Mounting Security Risk to the United States

The resultant enfeebling of the U.S. economy from the proposed evisceration of our Patent System will create a mounting security risk to the United States as a nation.

Let me observe, Mr. Chairman, that we should not expect the Japanese to proceed otherwise. They are pursuing their own national interest in seeking and executing these agreements. We may inquire why officers of the United States should have executed those agreements and are now engaged in pushing for their implementation.

The Japanese were also proceeding in their national interest, as they perceived it, when they attacked the United States at Pearl Harbor. In due course, they received an appropriate

response but at great cost both to the United States and to Japan. But that was a dramatic event well understood by every U.S. citizen.

The current attack has to do with intellectual property and economic growth. It is little understood by most Americans and yet, in due course, it may be even more serious than the flagrant attack of 7 December 1941.

The Japanese understand the power of intellectual property. They know that the ability of the United States to resist and to throw back the attack of 1941 ultimately came from the vitality of its economy which, in turn, was fueled in large part by the innovation promoted by our Patent System.

Following their military defeat in World War II, the Japanese, assisted by the U.S. with many economic programs, have rebuilt their economy. With an admirable display of diligence and discipline, they have built up substantial economic strength. They are using some of that strength to promote the growth of intellectual property in Japan and to promote research and development through their Ministry of Trade and Industry, MITI, and otherwise. At the same time, according to published accounts, they are making generous use of their resources in the United States to influence policy decisions such that research and development in the United States can be diminished, both from government support and from private support. The 1994 agreements which we discuss today are part of their program to cut back on innovation in the United States by reducing the effectiveness of our Patent System. They are entitled to pursue their national interests. What is astonishing is that they have found officers of the U.S. Government who champion their goals. They also have a welcome ally from spokesmen for a number of misguided U.S. corporate interests which share the goal of diminishing the effectiveness of the U.S. Patent System for individual inventors but for altogether different reasons. That is an area of support for the proposed changes which we must understand and to which we now turn.

Why Most Important Inventions Come From Independent Inventors Working Alone

Invention comes from individual inventors thinking in original and creative ways. Most of our great corporations have grown out of the work of an individual inventor, as cited in Appendix B. A few examples which quickly come to mind are Herman Hollerith, with the invention of his tabulating machine giving rise to the enterprise that became the International Business Machines Corporation; Alexander Graham Bell with his invention of the telephone giving rise to the American Telephone and Telegraph Company and the regional Bell Companies; Thomas Alva Edison with his light-bulb and many other products leading to the General Electric Company. Inventions are necessary to the successful growth of a major corporation, for the associated patent rights enable the company to protect its profit margin, to build up capital for further research and development in the area of technology that it owns and to have the capital for expansion and growth.

The Animus of Some Misguided Corporate Interests to Skew the Patent System Against the Independent Inventor

As the corporation grows, a transformation occurs in which most employees are directed to the established program based on the earlier inventive work. The original founders die or move on and the new employees tend to be those who are more susceptible to direction to an established program and less inclined to be innovative thinkers.

The consequence is that the vast majority of important inventions which create new products and lead to entirely new industries come from independent inventors working alone or in very small companies. This conclusion is thoroughly documented by Department of Commerce statistics as shown in Appendix D.

As the corporation grows, it may develop hostility to invention in its chosen area of technology which originates outside the corporate walls. That hostility arises from two sources:

1. The myth develops within the corporation that it has the creative brain power to deal with everything important in its chosen area of technology. That myth is needed to support the corporate ego which is vulnerable to nagging doubts as the creative people in the corporation leave with its growth and many of the best people outside prefer an independent rather than a corporately directed program of activity. The "NIH factor" (not invented here) is well-known in corporate psychology and leads to the refusal to recognize valuable work done outside the corporation in the market area of the corporation.
2. The corporate middle level managers tend to believe that they are serving the corporate ownership well by denying the recognition of outside proprietary rights to intellectual property which could cause the corporation to pay a reasonable royalty for the use of that property. Accordingly, they will attempt to use the financial strength of the corporation in overwhelming the individual inventor who tries to license and assert his rights against the corporation for products which are being used by the corporation without license, that is, by infringement of the individual inventor's rights. These managers may reason that they may save the corporation money, on average, by fighting the rights of independent inventors rather than by proceeding promptly to a reasonable license arrangement.

By an extension of the same attitude, such corporate management will favor any changes in the Patent System which diminish the effective intellectual property rights of the individual inventor as compared to the intellectual property rights of the corporation.

While these misguided corporate interests are entitled to express their views through as many well-paid lobbyists and patent lawyers as they may choose to employ, those of us who are concerned with the future welfare of the U.S. economy must assure that they do not succeed in diminishing the effectiveness of the U.S. Patent System as it applies to the individual inventor. We need to

protect the rights of the individual inventor because we need the future seeding of the U.S. economy which grows out of the work of such inventors. We need the new corporations which will arise from their work and grow great to compete with those established corporations which may sometimes now try to diminish the role of the individual inventor. We need the continuing turbulence of competition from the growth of new corporations. In this way, we retain the vitality and continuing expansion of the U.S. economy.

The financial values associated with the operation of the U.S. Patent System are immense and probably exceed payments of \$150 billion per year for current royalties on patents outstanding.

THE TWO 1994 AGREEMENTS WITH JAPAN

The Lehman-Asou Agreement

The first agreement was signed on January 20, 1994 between Bruce Lehman, Commissioner of Patents and Trademarks, and Wataru Asou, Commissioner of the Japanese Patent Office (JPO). Now when you have an agreement between two parties, you normally expect some balance between what each side gives and what each side gets. When I review the agreement signed by Bruce Lehman on January 20, 1994, I as an American am embarrassed that an officer of my government should sign an agreement which displays such apparent incompetence. Let us see what this agreement says on its face and what it says in substance. On its face, the agreement permits foreign nationals to file patent applications in the English language with a translation into Japanese to follow within two months. It also provides for certain correction of translation errors during the initial processing of the application and also, to some extent, after the patent issues. Those services are provided for appropriate fees. On the U.S. side, the agreement provides that legislation will be introduced to change the term of patents from 17 years from the date of grant to 20 years from the date of filing of the first complete application. It also requires that the term of all continuing applications, including continuations, continuations-in-part and divisionals, shall run from the filing date of the earliest filed of any applications invoked under 35 U.S.C. 120.

In substance what this agreement provides from the Japanese as a concession is almost trivial. What appears on the face of it to be two months of priority in claiming a filing date, while awaiting a translation, will in practice prove to be only one or two weeks. For when an inventor has written an application in English and is ready to file, he will normally have found a translator and can have the translation into Japanese within a week or two. The concessions provided by the Japanese on correcting translation errors are appropriate but almost too trivial to merit our discussion.

The Damage Resulting from the Change in the Patent Term

The concessions required from the U.S. under the agreement are profound. Changing from the established 17-year patent term from the date of issue of the patent to a term which is 20 years from the date of the application puts the ultimate term of the patent at risk for two types of delays which occur in processing patents through the U.S. Patent and Trademark Office (USPTO).

1. The Patent Office may make mistakes, such as losing the file. Sometimes a file is lost more than once. Sometimes months or even years are required to get the examination back on track. All of that time will subtract from the length of the term which the inventor receives which now runs from the date of issue of the patent to 20 years from the date of application. The application period can easily run on for years due to the blunders of the Patent Office. Why should the inventor be charged time on the use of his property rights because of blunders by the Patent Office?
2. Those patents which represent important advances in technology will necessarily have broad claims. The examiner may require an extended period of dialogue with the inventor. Appeals to the Patent Board of Appeals and Interferences may be required. Further appeals to the Court of Appeals for the Federal Circuit may be required before the final determination is made to issue the patent. For a major breakthrough patent, such extended examination period can run on for years, often three, five, ten, fifteen, even twenty years. All of that time would be subtracted from the term that the inventor may hold rights to his invention which begins with the issue of the patent and runs under this agreement to 20 years from the date of the application.

Often continuations, continuations-in-part and divisionals are required by Patent Office procedure in the full processing of the application. Under previous U.S. law, the applicant is protected for priority of disclosure to the original filing date for each of those continuations, as justice requires. Under the Lehman-Asou Agreement, when a continuation or divisional is required some time after the initial application was filed, the resultant term of the patent issued from such continuation or divisional is further shortened by the continuing subtraction of time from the 20-year period that begins to run with the earliest application.

The effect of this agreement, if sustained in legislation, is disastrous to all applicants in the USPTO whether they are independent inventors or otherwise. The agreement will extract its heaviest toll on the applicant who files for a major innovation. Those are the inventors who most need and deserve the protection of the Patent System.

It should be noted that the change of patent term in the United States under the Lehman/Asou Agreement is of no consequence for trivial patents. It becomes increasingly important as the importance of the invention increases, with the associated likelihood that the period for processing the patent grows longer. Those are exactly the patents which the Government of Japan would like to discourage. For they are the ones which seed the U.S. economy most and vitalize it through giving rise to new industries. Those are also patents that usually come from independent inventors which hostile corporate interests in the United States would most like to discourage. For, in their shortsighted view, they disregard the general vitalization of the U.S. economy and seek to avoid patents which might significantly encroach on what they view as their turf or areas that they might choose to expand into. Thus, the Lehman/Asou Agreement serves well those two disparate interests, for it effectively wounds those who may make the greatest contribution through innovation.

Methods Used to Rush Through the Implementing Legislation

The Administration, having granted this concession to the Government of Japan then succeeded in rushing it through the Congress and having it bundled with the GATT legislation so that no amendments could be made and the Congress had to vote up or down, yes or no, on the Bill as an inseparable part of the entire GATT bundle.

Misleading representations were made by those pushing the legislation, claiming that it was necessary because of GATT. That was false. GATT did require that the minimum term of a patent should be 20 years from the date of application, but GATT said nothing about the maximum term. Indeed, the proper legislation would have been that the term of the patent would be the longer of 17 years from the date of issue or 20 years from the date of the application.

The Remedy Available Through HR359

That remedy is now available through HR359 and a companion Bill in the Senate. HR359, introduced by Congressman Dana Rohrabacher, has strong support in the House and may be expected to pass. That Bill should be amended to eliminate the provision that the application may be laid-open after a period of five years on a continuation of the original application. That provision was written in before the submarine patent was understood to be a myth and is discussed more fully below.

The objective of the present attack on the U.S. Patent System is to step backward as much as possible from the basic grant of rights which is empowered by the U.S. Constitution. The mode of the attack is to reduce those rights in a number of different ways including the introduction of procedures which will add, or could add, insupportably to the cost of patent ownership for the independent inventor who happens to make a major contribution to our economy by producing an important innovation. That objective is further illustrated in the second 1994 agreement.

The Brown-Kuriyama Agreement

On the 16th of August 1994, letters of understanding were exchanged between Ronald H. Brown, Secretary of Commerce for the United States, and Takakazu Kuriyama, Ambassador of Japan, setting forth certain changes to be undertaken in the Japanese and in the U.S. patent systems. This agreement, while not as drastically unbalanced as the Lehman/Asou Agreement, is still strongly skewed against the interests of the United States. Three steps are to be taken by each party.

On the Japanese side:

1. The first step is to revise the opposition system such that oppositions are to take place only after the grant of a patent and multiple oppositions are to be consolidated and addressed in a single proceeding to minimize the time spent during opposition. That represents an improvement in the JPO procedure which favors the applicant by

enhancing his potential rights. As such, it favors all users of the Japanese patent system, both Japanese and foreign as well. The primary benefit would be to the Japanese because they are the majority users of their system.

2. The second step to be taken by the JPO is to institute a revised system of accelerated examination under which a foreign national may, for a fee, request accelerated examination and thus have applications processed to grant or abandonment within 36 months from the date of the request. That is a benefit to foreign applicants and helps assure that the application will not languish interminably during the JPO processing. The applicant may be required to submit a copy of a search report issued from the Patent Office in his own country where the application was first filed.
3. The third step to be taken by the JPO is to cease the practice of awarding dependent patent compulsory licenses which can force patent holders to license the use of their technology to competitors, thus limiting their exclusive rights in their inventions. This step is, again, an improvement in the rights of patent holders in the JPO and benefits all users, again benefiting the Japanese users presumably at least as much or more than those from abroad.

To sum up then, two of the three steps to be taken by the JPO are improvements in the rights granted under their own Patent Office which benefit all users and should require no concession from the United States. One of the steps to be taken by the JPO is specifically to benefit foreign applicants through accelerated processing of applications.

Turning now to the three steps required from the USPTO:

1. The first is to introduce legislation to provide that all applications filed after 1 January 1996 shall be made public 18 months from the filing date. The drawing and specification, including claims and bibliographic information of the application are to be made available to the public. An exception is made for applications that are subject to secrecy orders or are no longer pending.
2. The second step to be taken by the USPTO is to introduce legislation to revise current reexamination procedures such that the grounds for requesting reexamination may be expanded to include compliance with all aspects of 35 U.S.C. 112, except for the best mode requirement. It is to be further provided that third parties may participate in reexamination procedures to the extent of attending all examiner interviews and submitting written comments on the patent owners response to any action in the patent under reexamination.
3. The third step to be taken by the USPTO is the same as for the JPO, namely, not to grant dependent patent compulsory licenses. Inasmuch as that practice, so far as I know, is not currently being used by the USPTO except for an occasional government contractor, the third step is of little significance.

The first two steps, however, are of major significance.

The Damage to Intellectual Property from the Laid-Open Application

The requirement for publication after 18 months is a basic change in the U.S. patent procedures which currently assure that the applicant will be able to keep his filing secret until the patent is issued. If the filing is abandoned or the patent is otherwise not issued, then the filing remains secret. This proposed change would have a disastrous impact on the rights now enjoyed by those who file in the USPTO. It would be particularly damaging to those who make the most significant innovations, for experience shows that such patents normally require many years to issue, ranging from three to ten or more. Such inventions are breaking new ground and, under the empowerment of the U.S. Constitution, represent intellectual property which belongs exclusively to the inventor for a limited period of time. That period under recent law is 17 years from the date of issue of the patent. Under this proposed revision, the secrets of the inventor would be exposed to the public 18 months after filing of an application, even though he might not receive a patent for many years thereafter. Nevertheless, the significance of his discoveries would be open for all to see within 18 months. It has been said that a new idea can propagate with the speed of light, so that rapidly thereafter others could begin to develop applications suggested by the discovery disclosed by the laid-open application. For the independent inventor, the results are calamitous. Not only any major corporation in the United States, but also any other competitive inventor or corporation throughout the world, could begin poaching on territory which presently remains known only to the inventor and to the Patent Office until a patent is issued.

I believe this provision flies so much against the intent of Article I Section 8 of the Constitution that it is at risk of being Unconstitutional. In any case, it would be erroneous policy to take away from the independent U.S. inventor what is presently one of his most important rights under the U.S. Patent System, namely, the right to keep his invention secret until rights to license and enforce it become available to him. Under the proposed change, any corporation that wished could begin preparing and filing applications in adjacent areas of the newly disclosed technology. If those applications involve limited and sharply defined claims, then when the original pioneering inventor finally receives his patent with appropriately broad claims, he would find that a picket fence by a multitude of minor patents had been erected around his territory so that what could have been and should have been a valuable intellectual property has effectively been taken away from him.

Another consequence of the laid-open application is that competitors who oppose the grant of the patent can then employ their lawyers to unearth examples of asserted prior art to be submitted to the examiner in opposition to the application. Operating still more insidiously, the competitor could send the asserted prior art to the inventor himself with a statement of its importance to his application. Then, if the inventor concluded that the submitted prior art was insignificant and did not submit it to the Patent Office, the competitor could bring action against him for inequitable conduct after the patent issued, inasmuch as the inventor has an obligation to submit everything to the Patent Office which he thinks may be relevant to the application. By such procedures, a competitor could add heavily to the administrative costs of the inventor-applicant, using its

corporate resources to overwhelm the financial means of the inventor during the processing of the patent application before the applicant may enjoy the benefit of a presumption of validity which he will achieve with an issued patent.

A further possible consequence of this early disclosure of an invention before the patent issues would be that those who would like to destroy the patent right through the reexamination process as soon as the patent is issued would have years of preparation for such reexamination challenges while the original inventor was waiting and struggling to have his initial application successfully find its way through the process of issuance as a granted patent.

If we wish to destroy the value of the U.S. Patent System and all that it may contribute to our economic growth in the future, then this one change will largely accomplish that task.

Commissioner Lehman, who formerly worked in a law firm which spent much of its time lobbying for corporate interests, has enthusiastically promoted the changes required by these two agreements. In an effort to justify the drastic change associated with the patent term running from the date of application rather than from the date of issue, he has testified to the Congress that industry is at risk from "submarine patents" which remain submerged for a long time in the patent issuance process and then ultimately emerge to "torpedo" members of industry. The submarine patent is a myth and Commissioner Lehman's testimony itself has proven it to be so. When challenged by members of Congress to support his assertions, he has submitted data extracted from the Patent office files to show that one out of 7,700 (one thirteen thousandth of one percent) patent applications had been on file for more than 20 years before the patents issued. When the 627 patents which he cited were then examined, it was found that about half of them were subject to secrecy orders and a substantial part of the others were owned by Government and that substantially no patents fit into the description which he had offered as the basis for this drastic amendment to our patent laws.

It is sometimes argued by those in favor of these legislative changes that when a patent is slow to be issued, it may be due to the inventor engaging in delaying tactics that slow down the issuance. Every instance that I know of and have investigated in which a patent has had an extended period of issuance, has been one in which the ultimate issuance of the patent only occurred because of extraordinary diligence and persistence by the inventor in fighting for its issuance. I know of no instance in which an inventor has deliberately delayed the issuance of his patent nor do I know of any procedure under the patent regulations by which an inventor even has that capability. The obligation remains upon the Patent Office to move the application process forward as rapidly as possible unless it has been countermanded by an explicit secrecy order.

The Effect of Proposed New Reexamination Procedures

The second step in the Brown/Kuriyama Agreement of 16 August 1994 for the USPTO requires that new reexamination procedures be established to permit unspecified and unlimited third parties to participate in any examiner interviews and to submit written comments on the patent owners response to any action in the patent under reexamination. That represents a drastic departure from current reexamination proceedings in which a third party may initiate a reexamination but the

dialogue then continues only between the Patent Office and the patent owner in the same fashion as in an initial patent application. The proposed change would permit an unlimited and crushing burden of administrative proceedings against any owner of an important new patent. It could make the ownership of that patent a burden which the independent inventor would be unable to sustain.

While the patent system is intended to encourage the inventor to obtain intellectual property rights, the proposed revised reexamination procedures in association with the provision for 18 months publication of the application would tend to eliminate the value and the sustainability of those rights for the independent inventor. **When we recognize that that independent inventor is the primary source of the new industry and the vibrant economic strength of the U.S. economy, we recognize how ingeniously these proposed changes represent a stiletto thrust from the Keiretsus to the heart of the U.S. independent inventor.**

The Commerce Department has already distinguished itself by contravening regulations intended to prevent shipment of sensitive technological product which constitutes a security risk to the United States. Those infractions are minor compared to the contribution which the Commerce Department now proposes to make to national security risk through the proposed shackling of the independent U.S. inventor in a patent system that would cease to be his ally and become the means for overwhelming and preventing his ability to obtain useful intellectual property rights.

APPROPRIATE RESPONSES

Legislative: Pass HR359 and Defeat HR1732 and 1733

The appropriate response to these proposals, in my judgment, is to call for the defeat of the legislation, namely, HR1732 and HR1733, required to implement the proposed changes in the patent law and then to provide for the passage of HR359 and its companion Senate Bill, with appropriate amendment to avoid the hazards implicit in a laid-open application at any time during the processing of an application for a patent.

Executive: Resignations of Commissioner Lehman and Secretary Brown

A further appropriate response, in my judgment, is for the President to request the resignation of Commissioner Lehman and Secretary Brown in order that they may be replaced by more competent personnel. I believe that the President is required by his Oath of Office to take that course of action on the basis of the record which they have produced in connection with the 1994 agreements which we have discussed and their subsequent efforts to promote the changes in the U.S. Patent System set forth in those agreements.

Policy: Work to Raise the Patent Systems of Other Nations to the Level of Excellence of the U.S. Patent System

A constructive response in the international debate on patent rights would be to urge Japan and other overseas countries to cease the process of using laid-open applications at all, in view of their

profoundly disruptive effect on the intellectual property rights of the inventor. Moreover, reexaminations should be kept in their present U.S. form in which third parties may initiate the request for reexamination but may not participate further in the dialogue of the reexamination process. Finally, the patent term should provide a minimum of 17 years from date of issue of the patent in all cases and consideration may be given to making that term somewhat longer in view of the fact that the value to the inventor increases substantially in the final years of the patent term in which the growth of use of the invention may have occurred.

Appendix A

Text Of The Two 1994 Agreements With The Government Of Japan

The Agreements of 1 January 1994 and 16 August 1994 with the Government of Japan are appended for reference.

January 20, 1994

**Mutual Understanding
between
the Japanese Patent Office
and
the United States Patent and Trademark Office**

Actions to be taken by Japan:

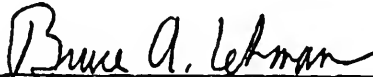
1. By July 1, 1995, the Japanese Patent Office (JPO) will permit foreign nationals to file patent applications in the English language, with a translation into Japanese to follow within two months.
2. Prior to the grant of a patent, the JPO will permit the correction of translation errors up to the time allowed for the reply to the first substantive communication from the JPO.
3. After the grant of a patent, the JPO will permit the correction of translation errors to the extent that the correction does not substantially extend the scope of protection.
4. Appropriate fees may be charged by the JPO for the above procedures.

Actions to be taken by the U.S.:

1. By June 1, 1994, the United States Patent and Trademark Office (USPTO) will introduce legislation to amend U.S. patent law to change the term of patents from 17 years from the date of grant of a patent for an invention to 20 years from the date of filing of the first complete application.
2. The legislation that the USPTO will introduce shall take effect six months from the date of enactment and shall apply to all applications filed in the United States thereafter.
3. Paragraph 2 requires that the term of all continuing applications (continuations, continuations-in-part and divisionals), filed six months after enactment of the above legislation, be counted from the filing date of the earliest-filed of any applications invoked under 35 U.S.C. 120.



Wataru Asou
Commissioner
Japanese Patent Office



Bruce A. Lehman
Assistant Secretary of Commerce and
Commissioner of Patents and
Trademarks
United States Patent and Trademark
Office



UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
 WASHINGTON, D.C. 20230

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FOR IMMEDIATE RELEASE

Contact: Ruth Ford
 (703) 305-8600
 Jim Desler
 (202) 482-4883

American Inventors Promised Swifter, Stronger
 Intellectual Property Protection By Japan

Washington, D.C. — U.S. Secretary of Commerce Ronald H. Brown and Japanese Ambassador Takakazu Kuriyama signed Letters of Agreement this afternoon in the Secretary's office ensuring American inventors faster processing of their patent applications and overall improved protection for owners of U.S. intellectual property rights.

"This is an important step in helping America's inventors gain better access to Japanese markets. This signing demonstrates progress by the Clinton Administration in resolving some long standing difficulties for owners of U.S. intellectual property rights," Secretary Brown said today.

Under the agreement, the Japanese Patent Office will:

- By April 1, 1995, end the practice of allowing third parties to oppose a competitor's patent before it is granted;
- By January 1996, put in place an accelerated patent examination procedure that will enable applicants to obtain disposition of their patent applications within 36 months, upon request; and,
- By July 1, 1995, end the practice of awarding dependent patent compulsory licenses which can force patent holders to license the use of their technology to competitors, thus limiting their exclusive rights in their inventions.

The agreement also requires the U.S. Patent and Trademark Office to publish pending patent applications 18 months after filing, beginning with applications filed after January 1, 1996, and expand reexamination proceedings to allow greater participation by third parties.

8/16/94

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EMBASSY OF JAPAN
WASHINGTON, D. C.

August 16, 1994

Dear Secretary Brown:

I have the honor to refer to the recent discussions between the representatives of the Government of Japan and the Government of the United States of America concerning the patent systems of the two countries. I am pleased to inform you that the Government of Japan confirms that, on the basis of these discussions, the Japanese Patent Office and the United States Patent and Trademark Office are to take the actions described in the Attachment hereto. In some instances, the implementation of these measures will require approval of the Japanese Diet or the U.S. Congress.

We look forward to working with you on a regular basis on these and other matters of mutual interest in the field of intellectual property. These ongoing talks will allow the Working Group on Intellectual Property or its successor to meet annually, or upon the request of either government, to discuss the implementation of the above actions.

I believe that the above-referenced actions and continued efforts will further promote the good relationship in the field of intellectual property between Japan and the United States of America.

Sincerely,

Takakazu Kuriyama

The Honorable Ronald H. Brown
Secretary of Commerce

Attachment



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

August 16, 1994

Dear Mr. Ambassador :

I am pleased to receive your letter of today's date concerning the measures that our two governments have decided to take with respect to the patent systems of our two countries. I am pleased to inform you that the Government of the United States of America also confirms that the actions described in the Attachment to your letter are to be taken by the respective Offices.

We look forward to working with you on a regular basis and to the ongoing talks which will allow the Working Group or its successor to meet annually, or upon the request of either government, to discuss the implementation of the above actions. I, too, believe that the actions of our two governments and continued efforts will further promote the good relationship in the field of intellectual property between Japan and the United States of America.

Sincerely,


Ronald H. Brown

His Excellency
Takakazu Kuriyama
Ambassador of Japan

Actions to be taken by the JPO:

1. (a) By April 1, 1995, in order to institute a revised opposition system by January 1, 1996, the JPO is to introduce legislation to revise the opposition system.

(b) Under the revised system, oppositions are to take place only after the grant of a patent.

(c) Multiple oppositions in the revised system are to be consolidated and addressed in a single proceeding to minimize the time spent during opposition.

2. (a) By January 1, 1996, the JPO is to institute a revised system of accelerated examination.

(b) In the revised accelerated examination system:

(i) the JPO is to allow an applicant who has filed a patent application before a foreign national or regional industrial property office to request accelerated examination for a corresponding patent application filed in the JPO;

(ii) applications are to be processed to grant or abandonment within 36 months from the date of the request for accelerated examination;

(iii) the JPO may require the applicant to submit a copy of a search report, issued by the above mentioned national or regional industrial property office separately from or associated with its first substantive action on the merits; and

(iv) a fee, not to exceed the fee for filing an application, may be charged in addition to the normal fee for requesting examination but no working requirement is to be imposed.

3. Other than to remedy a practice determined after judicial or administrative process to be anti-competitive or to permit public non-commercial use, after July 1, 1995, the JPO is not to render an arbitration decision ordering a dependent patent compulsory license to be granted.

Actions to be taken by the USPTO:

1. (a) By September 30, 1994, in order to institute an "early publication" system by January 1, 1996, the USPTO is to introduce legislation to make applications publicly available 18 months after the filing date of the earliest filed application, a reference to which is made under 35 USC 119, 120, 121 or 365.

(b) The USPTO is to make publicly available all applications, filed after January 1, 1996, as soon as possible after the expiration of 18 months from the filing date or, where priority is claimed under 35 USC 119, 120, 121 or 365, from the earliest priority date. The drawing, specification, including claims, and bibliographic information of the application are to be made available to the public. Applications that are no longer pending and applications subject to secrecy orders are not to be made publicly available.

2. (a) By August 1, 1994, in order to institute revised reexamination procedures by January 1, 1996, the USPTO is to introduce legislation to revise current reexamination procedures.

(b) The new reexamination procedures are to expand the grounds for requesting reexamination to include compliance with all aspects of 35 USC 112 except for the best mode requirement.

(c) The new reexamination procedures are also to expand the opportunity for third parties to participate in any examiner interviews and to submit written comments on the patent owner's response to any action in the patent under reexamination.

3. Other than to remedy a practice determined after judicial or administrative process to be anti-competitive or to permit public non-commercial use, after July 1, 1995, the USPTO is not to grant a dependent patent compulsory license.

Appendix B

The Putsch To Enfeeble The Independent U.S. Inventor

Additional perspective on the issues is provided by the attached article entitled "The Putsch to Enfeeble the Independent U.S. Inventor"

THE PUTSCH TO ENFEEBLE THE INDEPENDENT U.S. INVENTOR

by David L. Hill
 Patent Enforcement Fund, Inc.
 1095 Sasco Hill Road
 Fairfield, CT 06430
 10 October 1995

The current concerted effort to weaken the rights of the independent U.S. inventor by attacking those rights simultaneously from several directions may best be understood as an effort to weaken the United States as a viable economic unit. Some groups who have been manipulated into supporting this putsch may not understand the implications of their position. Consider the following:

- A. **Intellectual Property in the form of patents represents capitalism at its roots.** Whenever a widespread practical problem is solved, the invention creates new capital. Capital may be created from the manufacture of the new product, from sales of the new product and from services related to the new product, but the capital creation begins with the invention itself.

Real property may be a receptacle for accumulation of value but does not itself create capital. Personal property may include some tools which create capital, but personal property is mostly a depreciating asset.

It is invention which is the major source of new capital in our economy.

- B. **Capital generation is a societal good.** When those who create the new capital retain a reasonable fraction of it, then incentive is present for society to advance.

New capital provides the means for raising the standard of living and creates the material platform which enables, under proper guidance, the freedom of mankind from drudgery, the development of intellectual resources and the further ennoblement of the human spirit.

- C. **Most significant inventions which create new products and which may lead to entirely new industries come from independent inventors working alone or in very small companies.** The major R&D expenditures are by large corporations and those expenditures lead to many patents, but they are almost entirely related to improvements on existing products.

It is well documented by U.S. Department of Commerce studies that independent inventors, although their R&D

expenditures are relatively minor, provide the spark which continually enriches our economy by creating new products and new industries. A few typical examples of such work of independent inventors are:

xerography	insulin
penicillin	catalytic cracking of petroleum
jet engines	automatic transmissions
FM radio	the microprocessor
power steering	the ballpoint pen
air conditioning	Polaroid camera
cellophane	the digital computer
the helicopter	the nuclear reactor
the zipper	oxygen steelmaking process
kodachrome	

- D. **The culture shock between the world of creative technology and the world of business licensing tends to disadvantage the independent inventor.** In order to become an effective, creative inventor, a person must be deeply absorbed and committed to a highly ethical environment in which truth is valued for its own sake; the rigid sanctions of nature will punish any inventor who strays from the path of dealing honestly. The inventor who attempts to cheat and to dissemble is the first person to suffer, for he loses his ability to grapple with the realities out of which he must build a solution to the problem he has chosen to solve.

After the inventor is successful in solving a widespread practical problem, he then finds to his astonishment that in the world of business, the corporations which dominate the marketplace into which his product may be introduced will frequently deny his achievement, although it may be clear to the inventor that these corporations may be generating profits which sometimes run to hundreds of millions of dollars based on his work. Yet, the same corporations, instead of giving recognition to what he has accomplished, will employ attorneys to argue that they are not infringing the inventor's patent and further to argue that the patent itself should never have been issued by the Patent Office.

To enable the inventor to deal with this hostile environment, strong statute and case law exist and there are now organizations such as Patent Enforcement Fund coming into being which will create an alliance with the inventor to help him find the resources to assert his rights and to exercise the judicial system to obtain justice.

Many inventors have been so depressed and discouraged by the business environment in which they found them-

selves, after they had achieved their successful invention, that they have accepted some paltry sum for their rights. For those still less fortunate, abusive personal attacks and unfair competitive tactics have tended to drive them out of business altogether. Whenever an inventor is thus deprived of his just reward for his work, all of society suffers, for each such event tends to spread skepticism and cynicism regarding the effectiveness of the patent system and, thus, to diminish the incentive which the patent system was intended to generate to lead to the application of genius to the solution of widespread practical problems.

When Article I, Section 8 of the U.S. Constitution empowers the Congress to provide to inventors exclusive rights to their discoveries for a limited period of time, the clear intent is that the inventor should be able to retain a reasonable fraction of the wealth created by his invention, whether he exercises his right of exclusion under patent law or whether he relaxes that exclusion in terms of a fair and reasonable license fee.

The increasing strength of case law as a result of the uniformity and codification arising from the work of the Court of Appeals for the Federal Circuit since its creation in 1982 means that there is an increasing likelihood that the inventor will obtain a just reward for his work and, conversely, an increasing risk that those corporations which have in the past profited from misappropriating the work of the inventor will now be compelled to pay a reasonable license fee. The consequent support to the patent system benefits all of society by enhancing the wealth generation through the encouragement and motivation of inventors everywhere.

Partly as a result of this increasing effectiveness of the patent system, there is now a concerted effort to weaken the statute law upon which the patent system rests.

E. The present efforts to alter the patent system are targeted to weaken the position of the independent inventor.

1. The proposal that a patent be issued to the first to file rather than to the inventor violates the concept that the inventor himself should receive the patent and would provide a statutory process for the misappropriation of the patent ownership by any competing organization which can exceed the independent inventor in its clerical celerity

in filing and in its ability to pay the costs of processing the patent application.

The appropriate counterproposal is to retain the present system and to strengthen it when necessary to assure that the patent can only issue to the inventor himself.

2. GATT did not require it but GATT was used as the excuse for slipping in the change in patent term from 17 years from date of issue to 20 years from date of filing. That change targets the most important product of the independent inventor--namely, the breakthrough patent. Such patents may have extensive claims and may often require 5, 10 or even 20 years to find their way through the patent office process to an issued patent. Thus, the originator of the most important inventions will be the one to have the most diminished protection for his invention.

The appropriate countermeasure is to provide legislation, such as H.R. 359, which can provide that the patent term is the longer of 17 years from the date of issue or 20 years from the date of filing. At the same time, consideration may be given to the increased stimulus to the patent system if the period were lengthened still further to, say, 25 years from the date of issue or 28 years from the date of filing.

3. The proposal by H.R. 1733 to pass to a "laid open" application within 18 months of filing of the patent application is particularly malicious, for it would destroy the present U.S. patent law provision which keeps the application secret, known only to the inventor and to the Patent Office, unless and until the patent issues. Providing that the application be "laid open", prior to the issuance of the patent, would subject the inventor-applicant to:
 - a. the heavy burden of defending his application against any and all of the counterattacks from the industry to which his invention might apply, with these attacks being made while the application itself is being processed and before the inventor knows that he will have a patent to defend.

- b. the proposed premature exposure of the inventor's application would serve to seed the industry with his new ideas before he had obtained a patent and to generate destructive countermoves to destroy the value of any major breakthrough patent before it even existed. Such exposure gives the opposition a running start in applying for patents in adjacent and slightly modified technology and otherwise to mount its battle against the rights of the inventor, before those rights are granted to him, which would be uniquely damaging to the independent inventor. This proposal is especially destructive for the "breakthrough" patent claiming a major advance in technology, for such seminal patents often require five to twenty years to issue. Even then, their issuance is usually a tribute to the extraordinary dedication and persistence of the inventor applicant in surmounting the many hurdles created by the Patent Office against the issuance of his patent. We must do all we can to encourage such "submarine" patents, for they are the pearls of the patent system; their originators have made the greatest contributions and deserve the highest rewards.

The appropriate countermeasure is to emphasize the importance of retaining the present U.S. system that keeps the proceedings between the inventor and the Patent Office *ex parte* from start to finish. If there is to be "harmonization" between the U.S. and the overseas patent systems, then on this feature, as well as others, the U.S. system clearly takes the lead in establishing that the overseas systems should be modified to the U.S. model. We may then stimulate creativity around the globe from which all of the interacting national economies may benefit. The present system in Japan has been constructed to favor major corporations and to depress the rights of individual inventors.

4. The proposal, as in H.R. 1732, to have anyone granted the standing to request reexamination of a patent and to participate on equal

standing with the inventor in the reexamination proceedings would assure that the inventor of any important new development could be overwhelmed with administrative proceedings, attacking him from many directions as a specific consequence of his having been exceptionally inventive and having made a major contribution to society by solving a widespread practical problem.

The proper countermeasure is to assure that standing for requesting reexaminations is limited to the inventor and those against whom charges of infringement have been made by the patentee.

5. The proposal, as in H.R. 1659, to convert the Patent Office from an agency of the Department of Commerce to a separate government corporation runs the risks that it may diminish the oversight of Congress and, thus, deprive the inventor of the protection he has in the present system. It may also create questions concerning the efficacy of the rights of appeal which the inventor might then have from the decision of an examiner employed in the corporation.

While the proposal to go to a government corporation for the Patent Office may have some apparent advantages in availability of personnel to the Patent Office to carry forward its tasks and in having more control over its own funds, the proposal runs the risk that the strong Chief Executive Officer for the corporation which is contemplated in some versions of the proposed legislation, may put at risk the sound administration of the Patent Office now being maintained by intermediate and senior level personnel who are civil servants. These personnel, in many cases, represent a dedicated continuity of the current system which protects the rights of the inventor against the attacks of those who would further diminish the standing of the independent inventor by adverse administrative procedures. A strong Chief Executive Officer, if so motivated, could introduce significant administrative changes that largely eviscerate the ability of the Patent System to continue its protection of the rights of the independent inventor who, as we have seen, is critical to the role of

the Patent System in seeding the U.S. economy.

The proper countermeasure is to assure and to strengthen the level of Congressional oversight in the U.S. Patent Office whether it continues as an agency of the Department of Commerce or takes the form of a separate government corporation.

6. Many other measures are planned, such as the Prior User's Rights Bill, all of which tend to diminish or negate the rights of the independent inventor.

The proper countermeasure is to recognize the depth, vigor and perniciousness of the current concerted attack on the U.S. Patent System and build a nation-wide army of informed and alarmed citizens who can help assure that the Congress meets its responsibilities of maintaining and protecting the U.S. Patent System.

F. The U.S. Patent System has performed a critical and indispensable role in fueling the growth of the U.S. economy.

Many, and perhaps most, major U.S. corporations have had their beginnings with one or more valuable patent rights. Examples which come readily to mind are:

1. Herman Hollerith by his invention of the tabulating machine created the enterprise that grew into the International Business Machines Corp.
2. William Burroughs by his invention of the calculating machine created the base for the Burroughs Corporation.
3. An Wang, through his contribution to computer technology founded Wang Corporation.
4. Elmer Sperry through his inventive applications of the gyroscope and many other inventions, laid the basis for the Sperry-Rand Corporation.
5. Alexander Graham Bell, through his patents on the invention of the telephone, laid the basis for the telephone industry which has developed, particularly as represented by American Telephone and Telegraph and by the "Regional Bell" companies.

6. Herbert Dow, through his many inventions growing out of his study of brine, gave rise to the Dow Chemical Company.
7. Thomas Alva Edison, through his immense inventiveness, gave rise to the Edison General Electric Company and its successor, the General Electric Company.

By owning an area of technology, a company may protect its profit margin, thus accumulating capital for expansion and for further research and development, as required to carry forward its growth in its chosen field. Oddly, after the corporation grows to great size and the original founders have moved on, the successor managers, particularly at the middle level of management, tend to forget or disregard the sources of the corporations' strength and growth. That forgetfulness, coupled with the frequent corporate culture that feeds on the myth that no one outside the area of the corporation's chosen business field can make a major inventive contribution to it, leads to the policy in which major corporations disregard and attempt to exploit the rights of independent inventors. This short-sided policy may seem to produce some short-term gain to the corporation, but any such gain is at heavy cost to the overall growth of the U.S. economy and, ultimately, to the strength and viability of the corporation itself.

The primary contribution of the U.S. Patent System has been through the continual seeding of the economy from the work of independent inventors. This diverse and widespread source of genius is the primary resource out of which the unique industrial and commercial growth of the United States can be clearly traced.

G. The attack on the continued vitality of the U.S. as a viable economic unit comes from diverse sources, some more credible than others.

1. Much of the putsch comes from the industry of Japan as reflected in its managers and through its influence in the Japanese Government. The Japanese attacked the U.S. without warning at Pearl Harbor and received an appropriate response from the United States but at great cost. Now there is a less dramatic but even more malicious attack in progress which, if successful, would tend to rob the U.S. of its leadership in innovation and "harmonize" it at the average level of the other industrial nations. Strangely,

Japan and the other overseas nations which are promoting the attack on U.S. patent laws, will suffer too if they are successful, for they have benefited richly from the productivity and economic strength which the U.S. has developed and often generously applied to their benefit.

2. A second source of attack is from organizations which speak for major U.S. corporations, such as the "Fortune 500". As observed in the preceding topic, this effort is short-sided and self-defeating and can only be justified by the myopia of the mutually indulgent corporate management elite which demonstrates its disdain for the general welfare in many other ways as well, such as the ingenious devices employed in extracting from the public stockholder group excessive compensation for members of the corporate elite.

Included in this group is the AIPLA, in which the leadership has manipulated that organization into a position that is probably at variance with the views held by the majority of its members, many of whom represent small companies and individual inventors.

3. In some ways, the most surprising member of the triumvirate supporting the proposed changes in the U.S. Patent System is the Clinton Administration itself. Through distortion of efforts to promote GATT, the Secretary of Commerce has taken a lead in the attack on the Patent System, with the Commissioner of Patents serving as his faithful and willing accomplice. One might reasonably inquire whether we are looking at a surprising level of incompetence or corruption at a very grand scale. The total values being attacked may be measured in hundreds of billions of dollars, so there may be a fertile basis for corruption underlying the complicity of the Clinton Administration in this putsch. The present Commissioner of Patents, Bruce Lehman, was formally employed in a law firm which spent much of its time lobbying for corporate interests. While the Commissioner of Patents is normally expected to understand and to promote the patent system as a bulwark for promoting the U.S. economy, the current Commissioner is, in many ways, a fox in the henhouse, undertaking to

destroy that which he was commissioned to protect and to strengthen. It is not clear whether the President himself comprehends what is being done; in any case, he is committed under his Oath of Office to care about protecting the future seeding of the U.S. economy.

It is an irony that the principal product which the U.S. now exports and which can be the clearest basis for ultimately achieving a balance of trade is innovation. The trade deficit under which the U.S. now struggles may be expected to worsen and to accelerate if the present attacks on the patent system succeed in diminishing the springs of innovation which are our best hope of returning to the role of a dominant trade partner.

- H. The present putsch goes so much against the interest of all Americans that it provides a superb opportunity for demonstrating how the U.S. system of checks and balances may be applied to defeat a bad idea and to lead to the ultimate further strengthening and expansion of the powers of the U.S. Patent System to promote invention.

Appendix C

Editorial Comment From John D. Trudel

The 1994 Agreements were entered into without prior advice or public discussion and have come as a great surprise to everyone. The following article by John Trudel is typical of editorial comment which is now appearing more and more widely.

QUICKLOOK

CONFERENCE CALL

A Semiconductor Research Corporation (SRC) Conference on Transient-Enhanced Diffusion (TED) is scheduled for Oct. 12 and 13 at Boston University, Boston, Mass. The goal of the conference is to accelerate the development of predictive TED models through the exchange of information regarding both experimental observations and modeling approaches and to identify promising directions for future research. Topics to be covered include issues and projections for the TED modeling requirements, physical models and their relation to experimental observa-

tions, and methods to avoid/minimize the effects of TED on device structures. For more information, contact SRC, 79 Alexander Dr., Bldg. 4401, Suite 300, P.O. Box 12053, Research Triangle Park, NC 27709; (919) 541-9400; fax (919) 541-9450.

The **E-Mail World & Internet Expo** will be held Nov. 28-30 at the Hynes Convention Center, Boston, Mass. This event will focus on the entire Internet, the World Wide Web, e-mail, and other multimedia-enabled applications, network management, collaborative computing, and electronic commerce. EMail World will feature conference sessions that will address how

companies can pull things together to use directory services, mail transfer systems, addressing policies, workflow, and collaborative support systems. Internet Expo offers management and technical sessions that explain how the World Wide Web works and how to use it, how to build Web pages, and how to attain corporate goals through its use. The expo also addresses commerce and how to market on the Internet, along with up-to-the-minute information on payment systems and security. For registration and other information, contact DCI, 204 Andover St., Andover, MA 01810; (508) 470-3880; fax (508) 470-0524; e-mail DCIconf@aol.com.

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Life has irony, dear readers. In my wanderings I stumbled upon a hidden, serious, and very frightening issue. This may be the most important column I'll ever write.

As easy as it is to loathe lawyers, not all are bad. I hope some good ones will want to take up a difficult challenge, and take on a superior adversary—our own government.

At its core, high technology business needs legal protection. Since 1790, innovators have depended on the U.S. patent system to protect the unique value they created. This protection is now absolutely essential. "Knowledge has become the key economic resource and the dominant, if not the only, source of competitive advantage." (Peter Drucker, *Atlantic Monthly*, November 1994) Firms like Microsoft, Intel, and Motorola derive most of their market value from intellectual property. Without patent protection, Silicon Valley and the Venture Capital community could not exist.

I recently learned something astonishing. The Clinton administration has made promises to Japan that will end life as we know it for knowledge-based business in the U.S. An official from the U.S. patent office told me some startling things. The administration promised the Japanese that we will make U.S. patent filings public information after 18 months. If that sticks, effective January 1, 1996, all your competitors can get them.

The worst news is hidden. Embedded in the middle of the official's talk was the phrase "reexamination rights." Alarm bells went off in my mind, though he brushed by that topic. Did that mean that any U.S. firm fortunate enough to have patents will be subject to endlessly defending them against reexamination by the Japanese *keiretsus*?

Guarded in public, the official admitted that my worst fears were valid when we spoke privately. He likened the event to Japan's World War II surrender on the U.S.S. Missouri. Some were gleefully calling Tokyo on their cellular phones to report, "The U.S. has given us its patent system."

How could I find proof that this happened? Why hasn't someone blown the whistle? Why didn't the press report this? It took months and many details are still unclear, but I got most of the squalid tale. It will take several columns to tell this story, so please have patience.

The proof is contained in one paragraph (on page 26) of the voluminous 1994 Commissioner's Report to Congress, "Working for our Customers." Free copies can be obtained by calling the patent office at (703) 305-8600. The sell-off occurred in letters of agreement between Secretary of Commerce Ron H. Brown and Japanese Ambassador Takahazu Kuriyama dated August 16, 1994.

I urge you to get a copy of this document while it is still available. I think that Brown has sold out the U.S. patent system, and it's almost too late to stop it. My next column will discuss how Brown and his pet Patent Commissioner, Bruce A. Lehman, pulled this off, and why this is not yet front page news.

Lehman is now giving road shows telling patent lawyers that this is a minor change in the U.S. system to harmonize it with international practices. The official story is that we have put one over on those stupid Japanese, who gave us concessions in exchange for nothing.

Lehman lies. The unholy combination of NAFTA, GATT, first-to-invent, opening files after 18 months, and the new meaning of reexamination is poisonous. If Brown's plan succeeds, patent protection in the U.S. will be exorbitantly expensive and much less meaningful.

John D. Trudel, CMC, provides business development consulting and is the author of the book "High Tech with Low Risk." He is founder and director of The Trudel Group, 33470 Chinook Pl., Scappoose, OR 97056; phone (503) 640-5599; fax (503) 543-6361; e-mail johntrudel@aol.com.

THE ENVELOPE PLEASE... The winning entry in the "Name the Column" contest will be announced in the October 24 QuickLook section. We received a number of entries, and did they ever run the gamut—from the conventional to the racky to the unprintable. **ELECTRONIC DESIGN** thanks all those who entered.



Appendix D

Study By Department of Commerce Establishing That Most Important Inventions Come From Independent Inventors

Following is an Excerpt from an article published by a panel of the Department of Commerce reporting on invention from independent inventors and from employees of major corporations. It shows that, despite the fact that major R&D expenditures occur from the large corporations, the resulting inventions and patents are almost entirely improvements on existing product. The inventions which make a difference in the economy through creating new products and by seeding new industries come almost entirely from independent inventors.

TECHNOLOGICAL INNOVATION: Its Environment and Management

This report, prepared by Daniel V. De Simone, represents the views of the Panel on Invention and Innovation, an advisory committee of private citizens convened by and reporting to the Secretary of Commerce. The views of the Panel do not necessarily represent those of the Department of Commerce or of any other agency of the federal government.

January 1967
Reprinted, September 1967



U.S. DEPARTMENT OF COMMERCE
John T. Connor, Secretary

J. Herbert Hollomon, Assistant Secretary
for Science and Technology

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and managing technological change? What characterizes the relatively uninnovative industries? Are they this way because they failed to exploit innovative opportunities? Because they possess excessive built-in barriers to technological change? Is it that their managements have not learned the importance of utilizing technological opportunities and innovative skills?

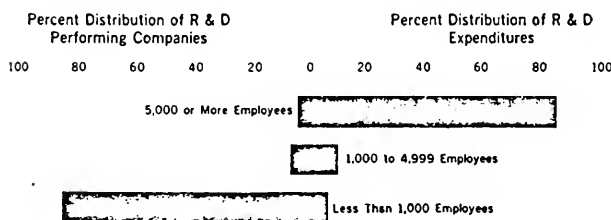
We find that we must answer each of these questions affirmatively. The major barrier is one of attitude and environment. It is primarily a problem of *education*—not of antitrust, taxation, or capital availability.

THE SIGNIFICANCE OF SIZE

We have examined variations in innovative performance between the public and private sectors, different regions, and different industries. We turn now to a consideration of innovative performance as a function of company size. Again, however—because we have no choice in the matter—we have been forced to resort to data concerning R&D, *not* the total innovative process.

CHART 12

VARIATIONS IN R & D, BY SIZE OF COMPANY



Source: Basic research, applied research, and development in industry, 1962.
NSF 65-18, 1965.

The above data show that a handful of large companies (having 5000 or more employees) perform almost all of the R&D; although, as we have illustrated, this is not necessarily indicative of *innovative* performance.

It is important to distinguish between large and small sources of invention and innovation, for the resources available to them are different and, not surprisingly, the riskiness of a venture and the manner in which it is undertaken are generally a function of the available resources. We therefore analyzed several studies on the sources of invention and innovation. These studies were unusually consistent in indicating that independent inventors (including inventor-entrepreneurs) and small technologically-based companies are responsible for a remarkable percentage of the important inventions and innovations of this century—a much larger percentage than their relative investment in these activities would suggest.

—Professor John Jewkes, et al, showed that out of 61 important inventions

and innovations of the 20th century, which the authors selected for analysis, over half of them stemmed from independent inventors or small firms.⁴

—Professor Daniel Hamberg of the University of Maryland studied major inventions made during the decade 1946-55 and found that over two-thirds of them resulted from the work of independent inventors and small companies.⁵

—Professor Merton Peck of Harvard studied 149 inventions in aluminum welding, fabricating techniques and aluminum finishing. Major producers accounted for only one of seven important inventions.⁶

—Professor Hamberg also studied 13 major innovations in the American steel industry—four came from inventions in European companies, seven from independent inventors, and none from inventions by the American steel companies.⁷

—Professor John Enos of the Massachusetts Institute of Technology studied what were considered seven major inventions in the refining and cracking of petroleum—all seven were made by independent inventors. The contributions of large companies were largely in the area of improvement inventions.⁸

Chart 13, which is based on the above studies, illustrates some of the important inventive contributions made by independent inventors and small companies in this century. One finds the range and diversity of these inventions impressive. Indeed, the mercury dry cells in our electronic watches, the air conditioners in our homes, the power steering in our automobiles, the FM circuits and vacuum tubes in our Hi-Fi and television sets, the electrostatic-copying machines in our offices, the penicillin and streptomycin in our medicine cabinets, and the list goes on—all of these inventions, which are generally taken for granted, take a new meaning when one identifies them with their sources. The point to be made is that independent inventors and small firms are responsible for an important part of our inventive progress, a larger percentage than their relatively small investment in R&D would suggest.

⁴ J. Jewkes, D. Sowers, and R. Stillerman, *The Sources of Invention*, St. Martin's Press, 1958, particularly pp. 72-88, and Part II.

⁵ D. Hamberg, "Invention in the Industrial Research Laboratory," *Journal of Political Economy*, April 1963, p. 96. See also, Concentration, Invention, and Innovation, U. S. Senate Antitrust Subcommittee, 89th Cong., Part III (Government Printing Office, 1965), p. 1286.

⁶ M. J. Peck, "Inventions in the Post-War American Aluminum Industry," in *The Rate and Direction of Inventive Activity: Economic and Social Factors*, National Bureau of Economic Research, (Princeton, New Jersey, 1962), pp. 279-92. See also, U. S. Senate Antitrust Subcommittee, *op. cit.*, p. 1296 and 1438-1457.

⁷ Hamberg, *op. cit.*, p. 98. See also U. S. Senate Antitrust Subcommittee, *op. cit.*, p. 1287.

⁸ J. L. Enos, "Invention and Innovation in the Petroleum Refining Industry," in *Rate and Direction of Inventive Activity*, *op. cit.*, pp. 299-304. See also, U. S. Senate Antitrust Subcommittee, *op. cit.*, p. 1287 and pp. 1481-1503.

CHART 13

SOME IMPORTANT INVENTIVE CONTRIBUTIONS OF INDEPENDENT INVENTORS AND SMALL ORGANIZATIONS IN THE TWENTIETH CENTURY

Xerography Chester Carlson	Shrink-proof Knitted Wear Richard Linton	Mercury Dry Cell Samuel Ruben
DDT J. R. Geigy & Co.	Dacron Polyester Fiber "Terylene" J. R. Vignfield, J. T. Dickson	Power Steering Francis Davis
Insulin Frederick Banting	Catalytic Cracking of Petroleum Eugene Houdry	Kodachrome L. Manne & L. Godowsky Jr.
Vacuum Tube Lee De Forest	Zipper Whitcomb Judson/Gideon Sundback	Air Conditioning Willis Carrier
Rockets Robert Goddard	Automatic Transmissions H. F. Mulhys	Polaroid Camera Edwin Land
Streptomycin Selman Waksman	Gyrocompass A. Kaempfe/E. A. Sperry/S. G. Brown	Heterodyne Radio Reginald Fessenden
Penicillin Alexander Fleming	Jet Engine Frank Whittle/Hans Von Ohain	Ball-Point Pen Ladislas & Georg Biro
Titanium W. J. Kroll	Frequency Modulation Radio Edwin Armstrong	Cellophane Jacques Brandenberger
Shell Molding Johannes Crounig	Self-Winding Wristwatch John Harwood	Tungsten Carbide Karl Schroeter
Cyclotron Ernest O. Lawrence	Continuous Hot-Strip Rolling of Steel John B. Tytus	Bakelite Leo Baekeland
Cotton Picker John & Mack Rust	Helicopter Juan De La Cierva/Henrich Focke/ Igor Sikorsky	Oxygen Steelmaking Process C. V. Schwarz/J. Miles/ R. Durrer

It goes without saying that the United States could not depend solely on the innovative contributions of small firms. The large firms are indispensable to technological and economic progress. From a number of different points of view, however, we are persuaded that a unique cost-benefit opportunity exists in the provision of incentives aimed at encouraging independent inventors, inventor-entrepreneurs, and small technologically based businesses. The cost of special incentives to them is likely to be low. The benefits are likely to be high.

DAVID LAWRENCE HILL

1095 Sasco Hill Road
Fairfield, Connecticut 06430
203-259-7789

BORN: 11 November 1919, Booneville, Mississippi

MARRIED: 31 December 1950, Mary M. Shadow (deceased
2 January 1992); children: David A.,
Mary C., Robert L., John F., Cynthia A.,
Sandra E. and James A.

EDUCATION: California Institute of Technology, Pasadena,
California
In residence September 1938 to June 1942
Highest prize scholarships held for four years
B. S. awarded in June 1942.

Princeton University, Princeton, New Jersey
In residence September 1946 to June 1949
For two years Socony Vacuum Company Fellow,
top fellowship in Physics Department
Dissertation: "Dynamical Analysis of Nuclear
Fission," under Prof. John A. Wheeler
Ph. D. awarded in June 1951.

POSITIONS: The University of Chicago Metallurgical Laboratory and
Argonne National Laboratory (successor institution)

(Worked with Enrico Fermi in building the first
nuclear chain reactor and in subsequent
experimental nuclear physics research:
Made first measurements on certain
properties of nuclear chain reactors.
Developed and applied improvements in
method for measuring distribution-in-
energy of nuclear particles, which led
to new knowledge on the process of
nuclear fission.)

In the period June 1942 to September 1946,
positions successively held: Research Assistant,
Junior Physicist, Associate Physicist and
Group Leader.

Vanderbilt University, Nashville, Tennessee
Assistant Professor, Physics, 1949-1952
Associate Professor, 1952-1954 (on leave)
Institute for Theoretical Physics, Copenhagen,
Denmark
Guest Scholar, summer of 1950, by invitation
of Professor Niels Bohr.

University of California, Los Alamos Scientific
Laboratory, Los Alamos, New Mexico
Consultant in Theoretical Physics, 1952-1954
Staff Member in Theoretical Division, 1954-1958
Group Leader in Theoretical Nuclear Physics,
1955-1958.

Management Consultant, October 1958 to October
1960 on financing new ventures and on execu-
tive group compensation plans, including
some periods of executive duty.

Physical Science Corporation, Fairfield, Connecticut
President, October 1960 to June 1962.

Nanosecond Systems, Inc., Fairfield, Connecticut
President, April 1963 to April, 1972

Particle Measurements, Inc., Southport, Connecticut
President, February 1965 to January 1981.

Integrated Total Systems, Inc., Hingham
Massachusetts
Chairman, June 1968 to February 1981.

Southport Computers, Inc., Southport, Connecticut
President, September 1973 to January 1981.

Harbor Research Corporation, Southport, Connecticut
President, February, 1978 to ---.

Valutron N.V., Netherlands, Antilles
President, June 1980 to ---.

Patent Enforcement Fund, Inc., Southport,
Connecticut
President, September 1990 to ---.

OTHER ACTIVITIES:

Miscellaneous marketing; publications, 1936-1937;
advertising space; Out-of-door plant display
advertising, 1948
American Physical Society (Fellow)
American Association for Advancement of Science
(Fellow)
Institute of Electrical and Electronic Engineers
(Senior Member)
Sigma Xi, honorary research society

Federation of American Scientists

Charter member of Atomic Scientists of
Chicago, 1945

Charter Member of the Federation of American
Scientists, 1946

Council Member, 1951-1958

National Chairman, 1953-1954

Chairman, Los Alamos Chapter, 1956-1957

Lecturer on atomic energy, science and public
affairs

Incorporator, Executive Vice President and

Director of the Los Alamos Investment
Corporation, 1956-1958

Consulting physicist to sundry industrial firms

Consultant on application of operations research
to corporate financial planning.

Science Advisor to Vice-Presidential Nominee,

Senator Estes Kefauver, in 1956 National
Campaign

Member of Advisory Committee on Science and

Technology of the Advisory Council of the

Democratic National Committee, from organi-

zation of the Advisory Committee in April 1959

to dissolution in April 1961.

PUBLICATIONS: (Partial listing)

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BIOGRAPHICAL LISTINGS:

- Who's Who in Science and Engineering
- Who's Who in Finance and Industry
- Who's Who in the East
- Who's Who in America
- Who's Who in the World

Testimony
of
Professor James P. Chandler
President, The National Intellectual Property Law Institute
1815 Pennsylvania Ave, NW
Suite 300
Washington, DC 20006

Presented To
SubCommittee on International Economic Policy and Trade
of the Committee on International Relations
House of Representatives of the United States of America

October 25, 1995
One o'clock P.M.

The agreement between Japan and the United States dated ^{Jan} June 20, 1994 covers basically two subjects:

1. An agreement by Japan to permit U.S. inventors to file their original patent applications in the English language, but sixty days later requires them to file a Japanese language version of their application. These inventors are allowed to make late corrections for translation errors. This commitment by the Japanese is trivial.
2. The United States agreed to make two significant changes in its basic patent laws.
 - a.) The U.S. agreed to change its patent term from 17 years following the date of grant to 20 years following the date of application. This is significant because it can shorten the actual life of the patent due to extended examination periods and thus thrust technology into the public domain earlier than it would otherwise be available to foreign competitors. This provision becomes even more harmful to U.S. global trade power when it is coupled with other changes now being proposed to Congress.
 - b.) Paragraph 3 of Actions to be taken by the United States in the January 20, 1994 agreement has the potential effect of invalidating numerous existing applications for patents. The provision provides that the change of patent term from 17 years from date of grant to 20 years from date of application will take effect with respect to continuing applications filed six months after enactment of the above legislation. Thus a patent filed in 1984 on which a continuing application is filed in August 1995, will receive a patent later if at all that is valid for 20 year term measured from 1984. A patent applied for in 1995 on which a continuing application is filed could not be granted a valid patent for any term. Since the patent could not issue

within twenty years from date of application.

As a consequence of the above analysis, these two patent applicants would be stripped of valuable property rights since they rightfully relied on existing law to grant a 17 year patent term following date of issue. This problem raises serious constitutional problems under the 5th Amendment takings clause.

For these reasons its most appropriate for this committee to inquire further on the impact of these changes in the patent law upon the power of U.S. trade in global markets and the potential losses to American inventors who are adversely impacted by these changes.

Finally, it seems to me that these changes should have been presented to this committee in the form of proposals and not after the fact, when the agreements have been concluded. With the permission of the Committee, I will supplement my written remarks later with the comments on the Agreement of August 16, 1994.



William G. Mark

Director

Technology Policy

October 24, 1995

The Honorable Toby Roth
Chairman, Subcommittee on International
Economic Policy and Trade
Committee on International Relations
U.S. House of Representatives
B-359 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The National Association of Manufacturers respectfully requests that the attached statement be made part of the official record for the hearing held by your Subcommittee on October 25, 1995.

This statement summarizes the NAM's views on the two 1994 bilateral patent agreements between the United States and Japan, and the relationship of these agreements to legislation (H.R. 359, H.R. 1732 and H.R. 1733) currently under consideration in the 104th Congress. If you or members of the Subcommittee have any questions on this issue or need additional information, please contact me at (202) 637-3147.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "William G. Mark", with a stylized flourish at the end.

Attachment

cc: Hon. Sam Gejdenson

Manufacturing Makes America Strong

1331 Pennsylvania Avenue, NW, Suite 1600-North Tower, Washington, DC 20004-1790 • (202) 637-3147 • Fax: (202) 637-3182



Statement on
Recent U.S.-Japan Patent Agreements

by the
National Association of Manufacturers

submitted for the printed record
of the October 25, 1995, hearing before the

Subcommittee on International Economic Policy and Trade
Committee on International Relations
U.S. House of Representatives

The National Association of Manufacturers (NAM) is the nation's oldest and largest broad-based industrial trade association. Its more than 13,500 member companies and subsidiaries, including approximately 10,000 small manufacturers, are located in every state and produce roughly 85 percent of U.S. manufactured goods. Through its member companies and affiliated associations, the NAM represents every industrial sector and more than 18 million employees.

The NAM's mission is to enhance the competitiveness of manufacturers by shaping a legislative and regulatory environment conducive to U.S. economic growth in a global economy, and to increase understanding among policymakers, the media and the general public about the importance of manufacturing to America's economic strength and standard of living.

The NAM is pleased to offer the following comments on recent U.S.-Japan bilateral patent agreements, which are the subject of today's oversight hearing by the Subcommittee on International Economic Policy and Trade.

Summary

The two bilateral U.S.-Japan patent agreements signed in 1994 commit the United States to make modest changes to our patent system. More importantly, however, these agreements compel Japan to make significant changes in its patent system. The NAM fully supports the substance of these two agreements and urges the Congress to enact implementing legislation (H.R. 1732 and H.R. 1733) expeditiously. Further, we strongly oppose legislation (H.R. 359) that would not only prevent implementation of the two U.S.-Japan bilateral agreements, but also undo changes in our patent law made in accordance with the GATT Uruguay Round agreement.

Background

The first agreement in question is a January 20, 1994, "mutual understanding" between the U.S. Patent and Trademark Office (PTO) and the Japan Patent Office (JPO). This agreement, signed by PTO Commissioner Bruce Lehman and JPO Commissioner Wataru Asou, obliges the United States to introduce legislation changing the term of U.S. patents from the then-current 17 years from grant to one of 20 years from date of filing. It also requires that the 20-year term be applicable to all patent applications, including continuing applications, filed after the effective date of the legislation. In return, the JPO would (1) permit U.S. inventors to file English-language applications so long as a Japanese translation followed within two months; and (2) permit greater latitude in the correction of translation errors.

The second agreement is an August 16, 1994, "letter of agreement" between the United States and Japan signed by U.S. Commerce Secretary Ron Brown and Japanese Ambassador Takakazu Kuriyama. This agreement calls for additional changes in both the U.S. and Japanese patent systems. The major changes to U.S. patent law are (1) the publication of patent application at 18 months from filing; (2) revised patent reexamination procedures that permit greater third-party participation; and (3) limits on the PTO's granting of dependent patent compulsory licenses. The JPO, in turn, would (1) abolish its pre-grant opposition procedures; (2) provide for accelerated examination of patent applications; and (3) limit the JPO's granting of dependent patent compulsory licenses.

Impact of U.S. Changes

The impact of both these agreements fall more heavily on the Japanese patent system than on the U.S. system. In fact, the changes in the U.S. system are ones the American business community would generally support making unilaterally. This includes the 20-year term, revised patent reexamination procedures and, to a somewhat lesser extent, the early publication of patent applications. All three of these changes were recommended by the Advisory Commission on Patent Law Reform, a blue-ribbon Commerce Department panel that presented its exhaustive findings in August 1992.

20-Year Term. In addition to its inclusion in the first U.S.-Japan bilateral, changing the term of patents to a minimum of 20 years from filing was also part of the GATT Uruguay Round agreement. Twenty years from filing is the standard patent term throughout the world; from 1952 until June 8, 1995, the U.S. term was 17 years from date of patent grant. In return for our agreeing to a 20-year term from filing in the GATT, the United States obtained inclusion of intellectual property rights protection and enforcement under WTO disciplines. This was a major victory for the United States and U.S. intellectual property community.

Opponents of the 20-year term, most prominently Rep. Dana Rohrabacher, allege that the 20-year term was "snuck into" the GATT-implementing legislation at the last minute. The facts, however, are clearly different. The 20-year term was a well-known feature of the GATT agreement early on, and was an integral part of the "Dunkel draft" of December 1991. Similarly, inclusion of the 20-year term provisions in the GATT-implementing

legislation was known to anyone who cared to study the issue. For example, the 20-year term was discussed at an August 1994 joint House/Senate hearing — three and one-half months before House passage of GATT on November 30. One of those testifying on the GATT intellectual property provisions at this August 12 hearing was Rep. Rohrabacher himself.

In practical terms, the change to a 20-year term will be minimal for the overwhelming majority of U.S. patent applicants: the average patent pendency in the PTO is less than two years and approximately three-quarters of all patents issue within three years. In the largest and most detailed study of patent pendency times to date (*An Empirical Study of the Twenty-Year Patent Term*), University of Texas Law School Professor Mark Lemley found that “the vast majority of patentees in the sample benefit from the new law,” and that “it is wrong to suggest that the effect of the 20-year patent term will be to decrease patent protection overall.” Moreover, because patent attorneys will likely respond more quickly to PTO actions (since the 20-year clock is ticking), pendency times should actually decrease — resulting in slightly longer terms of patent protection.

Foes of the 20-year term argue — incorrectly — that the PTO routinely takes longer than three years to issue patents, thus causing a net loss from the old term of 17 years from grant. Their solution is embodied in H.R. 359, which would give applicants the choice of the longer of 17 years from grant or 20 years from filing. This technically meets the letter of the GATT agreement by providing a minimum of 20 years from filing, but clearly violates the spirit of the agreement and significantly undermines U.S. credibility. H.R. 359 explicitly violates the first U.S.-Japan agreement. With intellectual property protection becoming ever more important, it is the height of folly for the United States to backslide on its hard-won intellectual property agreements. We can hardly expect our trading partners to honor their commitments to strong and effective intellectual property protection and enforcement if we do not.

The approach taken in H.R. 359 also reopens the door to abuses in the patent system that the GATT implementing legislation closed. With patent terms measured from date of grant, some inventors would deliberately manipulate their applications to delay granting of the patent so as to avoid starting the 17-year patent “clock.” By filing numerous continuing applications, for example, some inventors would amend their patent claims to include uses of the technology practiced by others. Eventually these inventors allow their patent to issue, claim priority and demand royalties from users of the technology. This results in the so-called “submarine” patent, which surfaces out of nowhere to blow away firms that took commercial risks, invested in new technologies, produced goods and created jobs. Although relatively few in number, the incidence of submarine patents has been increasing and even one submarine patent can cost manufacturing firms hundreds of millions of dollars when they arise. Beyond the direct damage inflicted by submarine patents, the abusive filing practices of a small number of inventors has eroded the overall intent and effectiveness of the U.S. patent system, which is premised on a *balance* of public and private rewards.

The NAM recognizes that, in a small minority of cases, the PTO does take longer than three years to grant a patent. In cases where delay is *through no fault of the applicant*, the NAM supports patent term extension to provide a minimum of 17 years of patent protection. In other words, we believe that, if the government delays, the government pays. Under H.R. 1733's provisions, no patentee who acts diligently would ever receive less than 17 years of patent protection. Patents that take longer than three years to issue are often delayed deliberately by applicants themselves, not the PTO. In these cases, there should be no reward (*i.e.*, a longer term) for dilatory tactics. This is the approach embodied in H.R. 1733, which the NAM and virtually the entire business community strongly support. We believe this is a fair and common-sense solution to the potential problem of patent term erosion.

Patent Reexamination Procedures. The patent reexamination procedure was created as a less-expensive administrative alternative to costly court challenges to patent validity. Because of the limits on third-party participation (and third parties file more than half of all reexamination requests), reexamination is viewed by most as a less-than-fair procedure. The result is that reexamination has become less of the alternative to litigation that it was intended to be. The solution is to expand third-party participation in reexamination procedures, thus restoring its attractiveness as an alternative to litigation.

Early Publication of Patent Applications. Under current U.S. law, patent applications are held secret and made public only when the patent is granted. The August 1994 agreement would require the PTO to publish all patent applications 18 months from the earliest filing date. The rationale behind publishing pending applications is to sweep out any patent-defeating prior art that could be lurking in the PTO. Currently, patent applicants and even patent holders have no guarantee that there are no applications pending in secret in the PTO that might undermine their own claims of inventorship. Publishing patent applications at 18 months assures a patent applicant or owner that, as of 18 months after their filing date, they are free and clear of prior art challenges to their patent. In other words, there is a far more certainty to their patents.

Another advantage to publishing applications at 18 months is to put the United States on a par with every other important patent system in world. Currently, a U.S. inventor who files abroad for patent protection has his application published at 18 months in the language of the country in which he filed. Thus, the technical data is available to foreign nationals at 18 months. Meanwhile, Americans must await the grant of the patent application, which may be years or even decades (in the case of submarine patents). This means that foreign innovators often have earlier access to technical data, which clearly puts U.S. innovators at a disadvantage.

The NAM supports 18-month publication, but recognizes its somewhat problematic nature. We support provisions that would enable applicants to obtain at least an initial determination of patentability by the PTO prior to 18 months. This would allow, for example, applicants to withdraw their applications and seek protection via the trade secret

route. Again, this approach is found in H.R. 1733 (although we suggest expanding the scope of this provision to include company and university applicants as well as independent inventors).

Impact of Japanese Changes

English-Language Filing and Correction of Translation Errors. The ability of U.S. applicants to file an English-language application gives them a two-month head start in filing in the JPO. The somewhat expanded ability to correct translation errors also makes the Japanese patent system a bit more user-friendly to U.S. inventors. In general, these changes provide modest benefit to U.S. applicants.

Elimination of Pre-Grant Oppositions. Pre-grant oppositions are proceedings whereby patent applications are challenged in the JPO before grant. The applicant is then faced with a long, complicated, expensive and very risky battle. The alternative is to enter into a cross-licensing arrangement with the challengers, which is usually the reason for the opposition in the first place. Pre-grant oppositions are, for all intents and purposes, a means to hold patents hostage until the cross-licensing "ransom" is paid. The severity of this problem was highlighted by the U.S. General Accounting Office in its July 1993 study, *Intellectual Property Rights: U.S. Companies' Patent Experiences in Japan*. Elimination of this pernicious practice is a major victory for U.S. inventors filing in Japan and should greatly ease one of the more significant impediments to adequate patent protection in Japan.

Accelerated Examination. Another major headache for U.S. inventors seeking patents in Japan is the interminably long pendency periods they must endure in the JPO. Part of the problem of long pendency stems from pre-grant opposition proceedings. Other impediments to timely examination include a severe shortage of JPO patent examiners and other fundamental differences between the U.S. and Japanese systems. Allowing U.S. inventors the ability to request accelerated examination is another important victory. Japanese patents can now be obtained by U.S. inventors in as little as three years, compared with the typical six-to-seven-year JPO pendency period.

NAM Position

The NAM believes the two U.S.-Japan bilateral agreements contain important gains for U.S. inventors. Moreover, the changes called for in our own domestic patent system are ones we generally favor in and of themselves.

A small but stridently outspoken minority claim that these agreements somehow sell out U.S. inventors (charges also levelled at H.R. 1733). These opponents represent themselves as the true voice of the inventor community and cloak themselves in an aura of near-mythical importance. The NAM recognizes the contributions made by independent inventors and applauds their role in helping to make the United States the world's technology leader. We also recognize, however, that independent inventors represent only about 20 percent of those filing patent applications. We do not believe our patent system should be skewed to favor a small minority at the expense of the majority of its users. Furthermore,

we do not believe that this minority, which rarely commercializes its inventions, should be indulged to the detriment of those in industry who turn their own inventions into American products and jobs.

The U.S. patent system dates from the earliest days of our Republic, and the current law is basically that adopted in 1836. The NAM and others in the business and intellectual property communities believe some changes in our patent system are necessary to comport with the 1990s and beyond. The changes proposed in the two bilateral agreements, and embodied in H.R.s 1732 and 1733, reflect a well-reasoned, thoughtful and informed approach to modernizing U.S. patent law. These changes preserve the fundamentals of our system while updating those elements that no longer make sense in a rapidly changing world. These changes have our support. With an objective judgement of the facts, we believe they will have your support as well.

US House of Representatives
Committee on International Relations
Subcommittee on International Economic Policy and Trade

Written testimony by Ronald J. Riley
President, Riley and Associates, Inc.
Advisory Board President, Alliance for American Innovation

My testimony must address all the changes that are pending because in their entirety they will have a much greater impact than each alone. It is especially important that readers understand that the changes will make patents unenforceable for everyone except the largest companies. The reason that NAM, IPO, and AIPLA are promoting these changes is because they are run by the largest companies who generally view innovation as a threat to their existing investment.

As an inventor, I must speak out about multi-pronged attacks against our patent system by foreign paid lobbyists and multinational corporations. America's founding fathers recognized that innovation is crucial to a free enterprise system. Foreign governments and multinational corporations have found allies in Patent and Trademark Office, both are spending large sums of money to change American patent law. Japan is one of the leaders but by no means is it the only foreign government trying to influence our lawmakers to make changes that are not in America's best interest. It is important that we not compromise our country's prosperity by allowing foreign interests to weaken our patent laws.

Japans influence.

A bargain was made during the "Mutual Understanding" of January , 1994 between Patent Commissioner Lehman and Japan to make a number of changes to our patent system. Some of those changes have been buried in GATT. This deal is a result of a trade with Japanese negotiators who offered the right to file American patents in English and a limited right to correct translation errors in exchange for the 20 year from date of filing language.

Another agreement between Commerce Secretary Brown and the Japanese was made in August 1994 to publish American patent applications 18 months after filing and to allow third parties to participate in reexamination proceedings.

Results of deals with Japan over many years should have taught the United States that we never get what we bargained for. I see no benefit for Americans in this deal. Most American inventors can not afford to file foreign patents. American inventors who do file foreign patents find that it is almost impossible to enforce them.

Jack Kilby of Texas Instruments is one recent example of Japan's unfair treatment of American inventors. He invented the monolithic integrated circuit. The Japanese patent office held up the issuance of his patent for 29 years and after its release Japanese courts ruled that the patent does not apply to current chip design.

The Japanese have been studying America's educational system for years attempting to understand what makes Americans so much more creative than the Japanese. American's make many breakthrough inventions. Japanese inventions are usually incremental or small improvements in existing technology.

Japan has demonstrated the ability to successfully commercialize concepts that the U.S. and other western cultures create with breakthrough inventions. So, their solution to the problem is to weaken our patent laws so they can take advantage of our creativity.

There is a concerted attempt to weaken US patents by multinational companies and by foreign governments. The Japanese are especially active in this attack. A recent article in Japan Times Weekly titled "Intellectual property rights accord with U.S. said necessary" made it clear that changes to the U.S. patent system are important to "facilitate transfers of technology and related investments from advanced economies to the Asian nations, which would help their economic development". The 20 year change that has been hidden in GATT enabling legislation is very detrimental to small business and individual inventors. There may also be other harmful provisions in GATT-TRIPS that have escaped notice. The document is over thirty pages.

I have a healthy respect for the Japanese. They are experts at marketing and manipulating politics. They consider both when promoting their interests. They are willing to spend large amounts of money to promote their interests and they do it consistently over a long time frame. It is well known in Washington that people who promote Japan's interests will be rewarded after they leave office.

The real problem is not Japan trying to influence our system, it is the willingness of individual Americans to sell out our countries interests and the failure of Americans to plan and make sacrifices for long term goals. We must start planning at all levels of personal, corporate, and government for 5, 10, and even 20 years goals.

I have come to the conclusion that if we do not stop these ill considered changes to our patent system that independent inventors and the industries they found will cease to exist in America, just as they have in Europe. We must stop this well orchestrated and funded attempt by multinational corporate and foreign governments to alter our patent system in a manner that will make patents unenforceable for everyone except the largest companies.

CHANGES UNDER GATT

Change of patent term from 17 years from date of issuance to 20 years from date of filing. The net effect of this change is to shorten the usable life of a patent. That is especially true of the most significant patents that often take a decade or more to issue. Traditionally a patent received a guaranteed term of 17 years in exchange for disclosing the invention. This policy has served America well for over 200 years. The twenty year language is also included in 1994 S. 1854, H.R. 4307, S. 2368, and H.R. 5110.

Prior to 6-8-95 foreign proof of inventorship within the United States was not allowed except where a patent has been published. GATT changed our laws (Section 104) to allow worldwide proof of inventorship. This is going to create many more interference's which will be extremely difficult to investigate. It will be much easier for multinational companies to avoid compensating American inventors by citing obscure evidence. It also opens the door for large scale fraud by multinationals which will be next to impossible to prove. My personal experience has been that large corporate interests often commit fraud to avoid compensating inventors.

OTHER PENDING CHANGES

Other changes to our patent law have also been proposed in several other pending bills. **These changes in their totality will cause far greater damage than the threat represented by each alone.**

"Early publication" which calls for the patent application to be published 18 months after filing. This will encourage interference with a patent by giving potential infringers access to the information before the patent issues and will make it much easier for an infringer to fraudulently claim prior user rights.

The published information will be used by dishonest entities to bring the invention to market ahead of the inventor denying the inventor the profits which could be used to defend the patent against infringers. Loss of that profit coupled with the expense of defending patent rights would result to a return to the conditions we had a decade ago where most inventors property rights were taken without compensation by large corporations with impunity. Adding insult to injury is the fact that inventors will be charged a fee to publish their patents. 1994 S. 1854, H.R. 4307, 1995 HR. 1733.

"Prior User Rights" which says that anyone who claims that they have secretly developed an idea can use it royalty free. This will prevent someone who obtains a patent covering the idea from collecting royalties from any prior user. Since there is no requirement that they publish to establish the right this will encourage large scale fraud by infringers who want to establish their right to use the idea to avoid compensating the inventor. 1994 S. 2272, 1995 HR. 2235.

"Third party participation in reexamination" would allow third parties an active roll in reexamination of patents. Currently a third party can request a reexamination but only the inventor and patent examiner are active in the process. This change would allow third parties an active roll. Large businesses could mount a series of attacks through fourth parties and tie the invention up for many years. This is especially insidious when considered with the patent term starting at filing. 1994 S. 2341, 1995 HR. 1732.

All of the changes cited tilt the playing field in favor of those who copy. The Japanese have always been very good at copying and I believe that is why they are lobbying so hard for these changes. The United States has always been good at making major technological breakthroughs and breakthrough patents protection is going to be disproportionately weakened.

These changes will favor those who make small incremental improvements in technology at the expense of those who make more significant breakthroughs. They will favor large companies over startup companies, and favor companies with short term management goals over companies that plan for long term goals.

The real cause of "submarine patents".

One example of how insidious the foreign interference is how they managed to get the patent offices backing for changes that will undermine the patent system. Proponents of weakening our patent system argue that it is being abused by inventors. They usually site "submarine patents" as an example of misuse. The term submarine patent first appeared in a Japanese publication and it is used to describe a patent which is issued after a long delay in the patent office which catches everyone in industry by surprise. Some persons claim that inventors intentionally delay their patents. There are no proven cases of intentional delay being used to create a submarine patent.

There is considerable evidence that delayed patents are the fault of inefficient bureaucrats at the patent office. When they were confronted by powerful interests over the problems created by patents that were issued after lengthy delays of up to forty years they picked individual inventors to be the scapegoat.

The patent office is specifically mandated to aid individuals who are filing for patents. The patent office's claim that submarine patents are caused by individual inventors is proof that they are not adequately aiding inventors as mandated by law.

There is a great deal of evidence that the PTO is in fact the cause of excessive patent delays. When an examiner receives an unusually complex or in some cases a poorly drafted patent (as can happen with pro se applications) they tend to work on it after they have processed other patents to keep their productivity evaluations favorable. The patent may go one or more years between office actions and I have heard of four and five years in extreme cases.

The examiner may leave the PTO, causing the file to be passed to another examiner. The new examiner is faced with even more work to become familiar with the patent and sticks the file on the bottom of their pile.

The application languishes and soon ten or twenty years, or in the worst case forty years have elapsed. This is not inventors fault and the solution is to enforce the mandate that the PTO prosecute all patents, especially pro se patents in a timely manner.

Another aspect of this problem is allowance of the inventions claims. Currently the inventor or their representative and the examiner interact to determine appropriate claim language. The examiner has an incentive to complete the patent because they look bad if the case drags on. Inventors have an incentive to receive their patent as soon as possible because they rarely derive income from a patent before it issues. I am sure it is not an accident that this change gives the PTO much more power over the inventor.

Many persons who have a vested interest in a weaker patent system have claimed that inventors have a motive to delay patents until a technology is well established. It is illogical to believe that an inventor would intentionally delay his patent for forty years. Compounded interest on money earned earlier far exceeds the potential for a bigger market which is cited as a motive to delay patents and the fact is that an inventor would have to be clairvoyant to see twenty, thirty, or forty years ahead. There is a fair probability that an invention would be rendered obsolete during a very long pendency by a new discovery which would make the delayed invention worthless.

Prolific inventors would be foolish to defer income when cash flow stops them from filing additional patents, patents whose financial return is likely to far exceed the value of compounded interest on invested funds. It follows that prolific inventors want income as soon as possible on existing patents to fund developing their most current ideas.

The 20 year from filing provision is a PTO bureaucrats dream because it gives them a huge lever to make an inventor accept whatever the PTO dictates. The five year, and then ten year extensions they have offered are Band-Aids applied to a change that is not justified by the evidence or in America's interests. Obtaining the extension is dependent on the whims of a bureaucrat. The PTO gets more power and eliminates industry criticism over delayed patents.

The 20 year term also shifts the financial consequences of unreasonable delays from large corporate interests to the inventor. It is clear that the PTO would rather have one or two angry inventors verses having many large corporate interests and the organizations that represent them such as NAM, AIPLA, and IPO demanding an explanation for unreasonable delays. In other words the 20 year change removes a serious political problem for the PTO.

Administrative solutions such as the five or ten year extensions that are included in HR.1733 are not acceptable. An inventor would be at the mercy of the PTO admitting they had caused an unreasonable delay in the patents execution. Our PTO management is not willing to accept responsibility for so called "submarine patents" and I think it unlikely they would take responsibility for the delays they cause if HR.1733 were passed. In any event giving them more power over inventors is poor policy since they are already abusing their authority.

Our own patent office has been systematically crippling our patent system at the request of Japan and multinational corporations. The current patent commissioner is neither a patent attorney nor an inventor. He characterized inventors who oppose his policies as "weekend hobbyists". Deputy commissioner Mike Kurt said that inventors who published an open letter to the President concerning the 20 year language of the GATT enabling legislation did not understand the issues. The group who is opposing him includes many Hall of Fame inventors and several Nobel laureates who I am sure were surprised that our patent commissioner had such a low opinion of them. I agree with Lehman that Administrative solutions could solve many problems. Mike Kurt resigned to run AIPLA which represents the interests of multinational corporations. Lets start with replacement of several of the PTO's upper Administrators.

The practical implications of the changes.

I suggest the following issues must be examined as a group while carefully considering what the practical implications are.

- 1) 20 year from filing.
- 2) World wide proof of inventorship, section 104.
- 3) 18 month publication.
- 4) Prior user rights.
- 5) Privatizing the patent office

There are often huge disparities between theory and real world application of principals. Look at capitalism verses socialism. One encourages hard work and the other doesn't. Multinationals will use the proposed changes to crush small business and independent inventors.

18 month disclosure will be used by dishonest entities to erode the patent term by third parties challenging pending patents, claiming prior user rights, and use of fraudulent evidence from difficult to investigate foreign sources. It will make our patent system subject to "flooding" as is common in Japan. Flooding is where hundreds of narrow and often questionable improvement patents are filed concerning a fundamental patent to limit the ability of the original inventor to collect royalties. 18 month publication will lead to a massive transfer of concepts created by American inventors to other countries which inevitability will cause further loss of American jobs.

Early publication will result in the transfer of technology with military significance. Publication of pending patent applications will initially result in over 100,000 patents being published. This huge volume of material will overload the staff that is responsible for screening material with military significance. Technology often has dual use, both military and civilian. Publication will cause such technology to be disseminated much quicker to the detriment of our national interests.

Prior user rights undermines the purpose of our patent system. The patent system was created to encourage inventors to disclose their inventions. If the incentive of a guaranteed period of exclusive use is removed it creates a strong incentive for inventors to treat ideas as trade secrets. If they are able to protect the idea as a trade secret they may use it indefinitely. If they fail to keep the idea secret and someone else patents the idea they forfeit the invention.

Important patents that are not stopped outright will be tied up with interference's and other delaying tactics that will eat up half or more of the 20 term. All infringers will claim to be a prior user. The very concept of prior user rights is contrary to the basic purpose of our patent system. The patent system is meant to encourage disclosure of ideas to promote the general advancement of technology.

Prior user rights will encourage greater use of trade secrets since the person using the trade secret will not lose their right to continue using the idea if it is discovered by another party. This is bad policy, persons who make a decision to use trade secrets do nothing to advance technology and should therefore not enjoy protection in the form of prior user rights.

Privatizing the PTO

The upper management of the Patent and Trademark Office is lobbying vigorously to become a corporation. They present many reasons why this would be an improvement but the real reason is to distance themselves from Congressional oversight. This attempt clearly violates our constitution because the patent process is quasi judicial.

Privatizing the patent office will lead to ever higher costs. The patent office plans on spending \$2 billion to construct a new complex. An incorporated PTO will be as efficient and accountable as our postal system, a situation I hope doesn't happen.

Seventy percent of the National Inventor Hall of Fame inductees were selected for inventions that occurred while they were independent inventors. Higher patent office fees make it increasing difficult for independent and small business inventors to patent their inventions. Small entity inventors are the backbone of job creation.

Stripping the patent examiners of their civil service protection will make the whole patent system very susceptible to outside influence. Current PTO management has been influenced by large corporations more then at any other time in our history. It is crucial that we stop the outside influence.

Patents will be unenforceable for anyone except the largest companies. Inventors such as I will abandon innovation. America's declining standard of living will accelerate. I suspect that America will stop being the beneficiary of the brain drain and that we could even end up being an exporter.

The PTO has repeatedly claimed that the vast majority of inventors will enjoy a longer term of patent protection under the 20 year from filling provision that was included in GATT. This is another example of the PTO misrepresenting the facts. They claim the average pendency is 19.5 months based on the most current continuation. It is not an accident that their statistics do not take into account the previous applications that led to the last application from which the patent issues.

An analysis of patent pendency by Gregory Aharonian of Internet Patent News Service showed the average pendency of 1000 software patents to be 34 months. Some other disciplines are twice as long.

The PTO claims the changes address abuses of our patent system. The worst abuses have been perpetuated by the PTO and none of the proposed changes address PTO abuses. The PTO is a bureaucracy whose upper management is willing to compromise the source of our prosperity to cover-up it's own failures, justify burdensome fees to increase its size and budget, and to give it more power.

The end result of the patent offices attempt to lay blame for submarine patents on inventors is that they have been maneuvered by the foreign multinationals into a position where they had to back measures that are contrary to America's interests. I am not sure at this time rather the patent office has been duped into backing destruction of innovation or if other incentives have been offered by multinationals to key persons.

I believe that PTO upper management is promoting early publication to increase it's budget and justify increasing staff to handle publication. Most bureaucrats want larger budgets and staff to increase their stature.

PTO upper management attitude.

The upper management of the PTO has consistently over several years shown contempt for inventors. They have made many disparaging public remarks about independent inventors. It is also clear that they still do not understand the difference between the 99% of inventors who are not commercially successful and the 1% who are successful. They have used some of our most prolific inventors as scapegoats in an attempt to divert blame from the PTO.

PTO upper management has threatened numerous inventors and industry groups to keep them quiet about issues that the PTO is promoting. They have intentionally given some inventors a difficult time about allowance of claims and they continue to cause delays of up to five years between office actions for such inventors.

Several PTO upper managers actions related to blaming inventors for problems that are clearly the result of the PTO not doing its job have caused a number of inventors great harm. They have personally libeled these inventors and have worked with large corporations who have a long history of stealing inventors work to help them avoid compensating these inventors. The large corporations have worked to spread the falsehoods and have tried to use their influence to stop the media from covering both the abuses and philanthropic activities of the inventors. In many cases they have succeeded.

"Facing High-Tech Issues, New Patents Chief is Reinventing a Staid Agency" in LAW of New York Times on Friday, July 14, 1995 did not surprise most of us who are critics of Mr. Lehman's attempts to ram through changes to our patent system. "Mr. Lehman asserts that his detractors are mostly weekend hobbyists who do not realize his agency is crucial to the economy because it regulates the ideas behind high-tech businesses." I am sure that numerous members of the National Inventors Hall of Fame, the American College of Physician Inventors Hall of Fame, and several Nobel Laureates were also surprised that they were described as weekend hobbyists.

A fundamental flaw in this bureaucrat's reasoning is that the agency is crucial; it is innovation that is crucial and not the agency. Most of the innovators who have joined in this fight are full time innovators and entrepreneurs. The fact of the matter is that Mr. Lehman's arrogance is the reason we are criticizing him. He has consistently refused to listen to anyone who disagrees with his views including a very large percentage of his own staff.

Don Banner, a former patent commissioner who is dramatically better qualified than Mr. Lehman also has been very critical of Mr. Lehman's attempts to alter the patent system. There are many other persons who feel Mr. Lehman doesn't understand the implications of his changes. Please note that he is neither a patent attorney or an inventor.

Mr. Lehman's efforts to move the patent office into the computer age have serious flaws. They are in large part based on doing text searches to locate art. The system has traditionally been based on classification searches and that system is much more effective then text searches. The problem is that Mr. Lehman is dismantling both the classification system and the quality control group that reviews some issued patents, rushing towards the text search method against the advise of the staff who really understand the system and without any trial interval to compare the two methods.

Mr. Lehman is clearly an effective bureaucrat. He is effective at manipulating the legislative process to minimize participation of those who don't share his views. He uses every underhanded trick available such as burying provisions in other legislation and introducing at least one bill on a Wednesday of one week followed by the bill being available from the printing office the next Tuesday and the hearing on the bill on Thursday.

The combination of an arrogant attitude towards inventors by our current patent commissioner who characterizes inventors who oppose him as "weekend hobbyists" and the statement by former PTO employee Mike Kirk that inventors who signed the open letter to the President did so because "they didn't understand what they were signing" and a clear pattern of half-truths or outright lies by the PTO about issues such as "submarine patents" makes it clear that the upper management of the PTO should be replaced.

Large Corporate motives

While inventors still face many obstacles in defending their intellectual property rights, they have made progress during the past ten years. The creation of Court of Appeals for the Federal Circuit (CAFC) resulted in effective enforcement of patents. Prior to it's creation individual judges would only hear a few patent cases in their carriers. The CAFC heard many patent cases and recognized the pattern of large corporate abuse of small entities and their rulings reflected that knowledge. Corporations that never recognized inventors rights started losing large cases.

That progress is alarming to those multinational businesses and foreign governments that had become accustomed to unlawfully appropriating individual's and small business's intellectual property. They are spending large sums of money attempting to gut our patent system, to render patents once again unenforceable so that they can take the benefits of American ingenuity and the jobs for their profit.

Impact on America

This is not an abstract problem that only affects inventors. The issue affects every citizen of our country. Loss of the economic benefits of Yankee ingenuity will cost Americans decent paying jobs and will doom our children to a much lower standard of living.

America's economic might is a direct result of our producing more inventors per capita than any other country in the world. Our culture is known for producing independent thinkers. Other cultures have studied our educational system in the hope of learning how to produce inventors.

A healthy economy is dependent on a diverse mix of both startup companies and large businesses. If we allow laws to be changed that benefit large companies at the expense of small companies who are the source of 75% of innovation we will have far fewer startups and fewer inventions.

Large companies have become very short sighted in the last ten to fifteen years. Their quest for ever higher short term gains has radically altered business practices. All of us know persons who have been displaced from jobs by down-sizing. Many people are not aware that Research and Development staff persons are being let go in greater numbers than many other groups. This is a result of large companies only funding small improvements that will give them an immediate return on their investment.

These trends are causing many inventors to form small companies to develop ideas for which large companies are not willing to make a long term investment to commercialize. The problem is that the large companies want to be able to take advantage of the small companies work without fairly compensating them.

Everyone understands that a farmer who consumes his seed corn is foolish. Small companies seed the market. If multinational companies are successful in crippling the patent system all Americans will suffer a decreased standard of living.

Conclusions

I have been an inventor for ten years, the last six full time. I am appalled by the actions of the current Administration and the Patent & Trademark Office (PTO). The PTO is a classic example of a bureaucracy that is out of touch with the realities of the marketplace and the needs of inventors.

Their actions during the last few years have been extremely damaging to Innovators. PTO management, motivated by their desire to increase their authority over clients, their budget, and to avoid accountability for their own deficiencies and in combination with political pressure by lobbyists that are paid by multinational corporations and foreign governments has been convinced to back measures that will allow foreign interests to take our inventions and the jobs and profits that those inventions represent.

A coalition of inventors joined with the Alliance for American Innovation to vigorously oppose the changes to our patent laws. Those changes are being promoted by multi-national corporations, foreign governments, and their lobbyists or agents. Inventors fighting to preserve our patent system includes numerous members of the National Inventors Hall of Fame, seven members of the American College of Physician Inventors, three Nobel Laureates, and thousands of other inventors who recognize that we must stand up to preserve our patent system. Several inventors attended GATT hearings and numerous members, including myself, have lobbied in Washington against changes to American patent law that will damage American innovation.

Please support Rohrabacher bill HR. 359 and Dole bill S. 284, as they are designed to repair the damage caused by the unnecessary provisions in GATT's enabling legislation that harm our ability to create desperately needed new jobs. Please oppose HR.1659, 1732, & 1733. Please look into what would motivate our PTO management to undermine their mission which is to promote innovation.

Ronald J. Riley, President
Riley & Associates, Inc.
Grand Blanc, Michigan

For more information contact: Steven Shore, President
Alliance for American Innovation
1100 Connecticut Ave. NW, Suite 1200
Washington, DC 20036-4101
Voice (202) 293-1414, Fax (202) 467-5591

Ronald J. Riley is president of Riley and Associates, Inc., a Grand Blanc, Michigan based company and is an inventor that specializes in industrial controls and product development but also has patents in process in diverse areas such as foot wear, telecommunications, exercise equipment, and numerous other consumer products. He is President of the advisory board of the Alliance for American Innovation, an advisory board member for Intellectual Property Creators, a member of the Union of Concerned Scientists, The Planetary Society, and the Society of Manufacturing Engineers.

Written testimony for hearing held on October 25, 1995 by Ronald J. Riley
Riley & Associates, Inc., 1323 West Cook Road, Grand Blanc, MI 48439
Phone (810) 655-8830 - Fax (810) 655-8832 - E-mail rjriley@tir.com
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